Monitoring Officer
**Christopher Potter**

County Hall, Newport, Isle of Wight PO30 1UD
Telephone (01983) 821000

# Agenda

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| Name of meeting | **AUDIT COMMITTEE** |
| Date | **MONDAY 20 MARCH 2023** |
| Time | **10.00 AM** |
| Venue | **COUNCIL CHAMBER, COUNTY HALL, ISLE OF WIGHT** |
| Members of the committee | Cllrs A Garratt (Chairman), M Lilley (Vice-Chairman), V Churchman, K Lucioni, G Peace, R Redrup and Vacancy |
| | Democratic Services Officer: Megan Tuckwell<br>democratic.services@iow.gov.uk |

1. **Apologies and Changes in Membership (If Any)**

   To note any changes in membership of the Committee made in accordance with Part 4B paragraph 5 of the Constitution.

2. **Minutes** (Pages 7 - 10)

   To confirm as a true record the Minutes of the meeting held on 28 November 2022.

3. **Declarations of Interest**

   To invite Members to declare any interest they might have in the matters on the agenda.

4. **Public Question Time - 15 Minutes Maximum**

   Questions may be asked without notice, but to guarantee a full reply at the meeting a question must be put (including the name and address of the questioner) in writing or by email to democratic.services@iow.gov.uk, no later than two clear working days before the start of the meeting. Therefore, the deadline for written questions will be Wednesday, 15 March 2023.

5. **Reports of the External Auditor, Ernst and Young**

To consider the reports of the External Auditors in relation to the Isle of Wight Council and the Isle of Wight Pension Fund:

(a) Audit Results Report - Isle of Wight Council (Pages 11 - 60)

(b) Audit Results Report - Isle of Wight Pension Fund (Pages 61 - 98)

6. **Approval of the Final Statement of Accounts 2021-22** (Pages 99 - 244)

To consider and approve the report of the Director of Finance.

7. **Annual Governance Statement 2021-22** (Pages 245 - 270)

To consider and approve the report of the Chief Executive.

8. **Internal Audit Progress Report** (Pages 271 - 292)

To consider and note the report of the Chief Internal Auditor.

9. **Internal Audit Plan 2023-24** (Pages 293 - 310)

To consider and approve the report of the Chief Internal Auditor.

10. **Anti-Money Laundering Policy** (Pages 311 - 328)

To consider and approve the report of the Chief Internal Auditor.

11. **Treasury Management Strategy** (Pages 329 - 362)

To consider and adopt the report of the Director of Finance.

12. **Treasury Management Report Q3 2022-23** (Pages 363 - 380)

To consider and note the report of the Director of Finance.

13. **The Council's Risk Profile** (Pages 381 - 420)

To consider and approve the report of the Chief Executive.

14. **Chairman's Annual Report** (Pages 421 - 430)

To consider and note the report of the Chairman.

15. **Review of the Constitution**

To consider a verbal update from the Chairman.

16. **Workplan** (Pages 431 - 432)

To consider and note the committee's workplan.

17. **Members' Question Time**

A question must be submitted in writing or by email to democratic.services@iow.gov.uk no later than 10am, Thursday 16 March 2023.

CHRISTOPHER POTTER
Monitoring Officer
Friday, 10 March 2023

## Interests

If there is a matter on this agenda which may relate to an interest you or your partner or spouse has or one you have disclosed in your register of interests, you must declare your interest before the matter is discussed or when your interest becomes apparent. If the matter relates to an interest in your register of pecuniary interests then you must take no part in its consideration and you must leave the room for that item. Should you wish to participate as a member of the public to express your views where public speaking is allowed under the Council's normal procedures, then you will need to seek a dispensation to do so. Dispensations are considered by the Monitoring Officer following the submission of a written request. Dispensations may take up to 2 weeks to be granted.

Members are reminded that it is a requirement of the Code of Conduct that they should also keep their written Register of Interests up to date. Any changes to the interests recorded on that form should be made as soon as reasonably practicable, and within 28 days of the change. A change would be necessary if, for example, your employment changes, you move house or acquire any new property or land.

If you require more guidance on the Code of Conduct or are unsure whether you need to record an interest on the written register you should take advice from the Monitoring Officer – Christopher Potter on (01983) 821000, email Christopher.potter@iow.gov.uk, or Deputy Monitoring Officer - Justin Thorne on (01983) 821000, email justin.thorne@iow.gov.uk.

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If you wish to record, film or photograph the council meeting or if you believe that being filmed or recorded would pose a risk to the safety of you or others then please speak with the democratic services officer prior to that start of the meeting. Their contact details are on the agenda papers.

If the press and public are excluded for part of a meeting because confidential or exempt information is likely to be disclosed, there is no right to record that part of the meeting. All recording and filming equipment must be removed from the meeting room when the public and press are excluded.

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# Minutes

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| Name of meeting | **AUDIT COMMITTEE** |
| Date and Time | **MONDAY 28 NOVEMBER 2022 COMMENCING AT 10.00 AM** |
| Venue | **COUNCIL CHAMBER, COUNTY HALL, ISLE OF WIGHT** |
| Present | Cllrs A Garratt (Chairman), M Lilley (Vice-Chairman) and K Lucioni |
| Also Present | Cllr C Jarman and Cllr K Love<br><br>Jo Cooke, Debbie Downer, Elizabeth Goodwin, Hayley Holden, Kerry Hubbleday, Geraint Newton and Megan Tuckwell |
| Also Present (Virtual) | Cllrs J Jones-Evans, L Peacey-Wilcox, and C Critchison<br><br>Christopher Ashman, Dawn Lang and Chris Ward<br><br>Jason Jones (Ernst & Young) |
| Apologies | Cllr G Peace |

25. **Apologies and Changes in Membership (If Any)**

Cllr Peace gave his apologies.

26. **Minutes**

RESOLVED:

THAT the minutes of the meeting held on 17 October 2022 be confirmed as a true record.

27. **Declarations of Interest**

No declarations were received at this stage.

28. **Public Question Time - 15 Minutes Maximum**

No public questions were received.

29. **Council's Financial Position**

The committee received a presentation from the Director of Finance and Section 151 Officer, which provided an overview of the council’s current financial position, the original forecast and forecast budget pressures, government funding changes, and planning for the budget-setting process. Discussion took place with regards to resilience and budget reserves as they related to the strategic risks of the council. Questions were raised around the progress with securing additional funding from the government in the form of the Island Deal, to recognise the Island's physical separation from the mainland and the unique associated costs.

RESOLVED:

THAT the Cabinet be supported in pursuing an effective Island Deal.

30. **External Audit Planning Report - IWC Update**

The External Auditors presented the report which provided the committee with an update to the risk identification for the 2021/22 audit for the Isle of Wight Council, reflecting the change in risk relating to investment property valuations. No comments or questions were raised, and the report was noted.

RESOLVED:

THAT the report be received and noted.

31. **Internal Audit Progress Report**

Consideration was given to the internal audit progress report. The committee noted the assurance levels of the Omicron Business Grant fraud assessment and the council tax and NNDRs. Questions were raised regarding policy decisions relating to Section 106 Agreements. As the audit reviewed the procedures and accounting records, it was suggested that the Policy and Scrutiny Committee for Neighbourhoods and Regeneration be asked to look into queries raised by councillors that were outside of the remit of the Audit Committee.

RESOLVED:

THAT the report be received and noted.

32. **Fraud and Irregularity Annual Report (inc. Whistleblowing)**

The Chief Internal Auditor presented the annual report which provided an overview of any incidents of fraud and irregularity experienced by the council during the period 1 April 2021 to 31 March 2022. The committee noted that an increase in activities of this nature was likely to emerge and it was advised that enhanced checking would take place throughout the upcoming year.

RESOLVED:

THAT the report be received and noted.

33. **Procurement Half-Yearly Report**

The Procurement and Contracts Manager presented the report which provided an overview of the council's procurement and contract monitoring activities for the period 1 April 2022 to 30 September 2022. Comments were made in relation to approved waivers and it was confirmed that whilst there had been an overall decrease, those in Adult Social Care and Children's Services remained high. It was suggested that the Policy and Scrutiny Committees for Children's Services, Education and Skills, and for Health and Social Care, be asked to look into the matter. Questions were raised in relation to instances where contractors had gone out of business, and it was advised that the closures of care homes had a significant impact on the Adult Social Care system and budget pressures.

RESOLVED:

THAT the report be received and noted.

34. **Treasury Management Report Q2**

Cllr Michael Lilley declared an interest as a member of the Local Pension Board.

Consideration was given to the report on treasury management policies, practices, and activities for the quarter ended 30 September 2022. Subsequent to the publication of the report, it was advised that the Bank of England had increased their interest rates and were forecast to increase further. Questions were raised regarding the impact this may have on the council's long-term borrowing commitments to address housing issues. It was agreed that the matter would be discussed with the chairman of the Corporate Scrutiny Committee.

RESOLVED:

THAT the report be received and noted.

35. **The Council's Risk Profile**

The Strategic Manager for Organisation Intelligence presented the report which summarised the current position with regard to the council's strategic risks. Comments were made in relation to the narrative provided on safeguarding, monitoring of occupancy levels, directorate engagement, and business continuity plans for the highways PFI and waste contracts. The committee noted the development of a new strategic risk in relation to the cost-of-living, and it was suggested that an informal meeting be arranged (at an appropriate time) in order for committee members to be fully briefed on the matter before receiving quarterly updates.

RESOLVED:

THAT the report be noted, and the strategic risks of the council as set out in Appendix 1 of the report be approved.

36. **Chairman's Annual Report 2021-2022**

The chairman provided a verbal update on progress and confirmed that the report would be presented at the next meeting of the committee in March 2023. It was advised that the report was being developed in line with CIPFA guidance and would review the committee's effectiveness. Key elements would include the exploration of a recruiting a co-opted independent expert, and for the committee to engage directly and separately with its external auditors. No questions or comments were raised at this stage.

RESOLVED:

THAT the update be noted.

37. **Review of the Constitution**

The chairman provided a verbal update and advised that the main element of the review, following the outcome of the LGA peer review of the Planning service, was understood to be progressing well. It was reminded that the committee were obliged to consider any changes to the Constitution, for recommendation to Full Council.

RESOLVED:

THAT the verbal update be noted.

38. **Workplan**

Consideration was given to the Committees workplan for 2022-24 and the chairman invited committee members to share their views on altering the start time and/or day of the week for future meetings. It was advised that consideration would be given to the governance arrangements, decision-making processes, and lessons learnt in relation to the Floating Bridge, and it was agreed that the approach to this matter would be discussed with the chairman of the Corporate Scrutiny Committee.

RESOLVED:

THAT the workplan be noted.

39. **Members' Question Time**

Cllr Lucioni asked a question in relation to committee membership and the progress with the recruitment of a co-opted independent expert. It was advised that initial work was underway, and the first stage would be to identify any knowledge and skills gaps.

CHAIRMAN

# Isle of Wight Council
## Audit results report

Year ended 31 March 2022

March 2023


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Agenda Item 5a

Isle of Wight Council
County Hall
High Street
Newport, Isle of Wight PO30 1UD

8 March 2023

Dear Audit Committee Members

2021/22 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Audit Committee at its meeting scheduled for 20 March 2023 on further progress to that date and explain the remaining steps, and timeline, to issue of our final opinion.

The audit is designed to express an opinion on the 2021/22 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Isle of Wight Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

This report is intended solely for the information and use of the Audit Committee, other members of the Council and senior 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 20 March 2023.

Yours faithfully

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.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) 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 Isle of Wight 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 Isle of Wight 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 Isle of Wight 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

## Scope update

In our audit planning report presented to the Audit Committee meeting on 25 July 2022 , we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following amendments:

Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment

| | Planning Materiality | Performance Materiality | Audit Differences |
|---|---|---|---|
| | Our planning materiality represents 1.2% of gross expenditure on provision of services, adjusted for any unusual items. | Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year. | We report all uncorrected misstatements relating to the primary statements greater than 5% of planning materiality. |
| Planning | £5.081 million | £3.811m | £0.254m |
| Final | £4.977 million | £3.732m | £0.249m |



Investment property valuations – increased risk to significant

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. However, some property markets have started to function again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. In light of this, in our outline Audit Planning Report issued in June 2022, we reduced the risk on investment property valuations from significant to higher inherent risk.

Upon receipt of the valuation reports from the external valuers we revisited our risk assessment and whilst the investment property portfolio has remained unchanged, there has been a £6.3m (c.£18%) increase in valuation. This increase is greater than our materiality threshold £4.977m and we have therefore increased the risk to significant in relation to investment property valuations.

# Executive Summary

## Status of the audit

Our audit work in respect of the Council's opinion is still in progress. The following items relating to the completion of our audit procedures were outstanding at the date of this report. We will provide a verbal update to the committee on further progress at the meeting on 20th March 2023.

Detailed audit procedures:

- PPE valuations testing – our property specialist team (EYRE) have raised queries relating to the valuation methodology and assumptions used for two properties and are awaiting management response before being able to conclude. Local team testing is substantially complete but still subject to Partner review
- Assets held for sale –EYRE are currently reviewing management's valuation of Nicholson Road Business Park Extension
- Debtors and Creditors – all evidence has been received and sample testing is underway
- Reserves and cash flow statement – testing underway, no significant issues identified to date
- Operating expenditure – testing is substantially complete, queries remain on 14 items
- Payroll – work is substantially complete, subject to review
- Journals – samples have been selected and testing is in progress
- Income - testing is substantially complete, queries remain on 19 items
- Grants – testing substantially complete and reviewed

Closing procedures:

- Update of our subsequent events procedures to the date of our opinion
- Review of the final version of the financial statements
- Receipt of the signed management representation letter
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the accounts which could influence our final audit opinion.

## Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

# Executive Summary

## Status of the audit – Value for Money

In the audit planning report presented to the Audit Committee, we reported that our value for money (VFM) risk assessment was not fully complete but that, at the time, we had not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code. We have since completed our risk assessment and remain satisfied that we have not identified a risk of significant weakness. As a result, we have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03).

Our work on the Value for Money commentary to be included in the Auditors Annual Report has been significantly completed. We can confirm at this stage we have not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

Recognising the pressures in the local audit system, the NAO's guidance for 2021/22 allows the Auditors Annual Report to be issued 3 months after giving the opinion on the financial statements.

## Audit differences

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At the time of writing our report we have identified one unadjusted difference in relation to the Council's share of the Pension Fund assets and a small number of misstatements within the disclosure notes. Further details on audit differences can be found in Section 4 Audit Differences. We will provide a verbal update to the committee if any further misstatements are identified at the meeting on 20th March 2023

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22. However, we do not expect any issues in performing this work as the Council falls below the threshold set within the guidance from HM Treasury and the group audit instructions for 2021/22 on which our work is based.

We have no other matters to report.

## Objections

We have not received any objections to the 2021/22 accounts from members of the public.

# Executive Summary

## Areas of audit focus

In our audit planning report we identified a number of key areas of focus for our audit of the financial report of Isle of Wight Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the “Areas of Audit Focus" section of this report.

| Fraud Risk | Findings & Conclusions |
|---|---|
| Misstatements due to fraud or error | Our work in this area remains in progress. To date we have not identified any material weaknesses in controls or evidence of material management override, instances of inappropriate judgements being applied; or any other transactions during our audit which appear unusual or outside the Council's normal course of business. |
| Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure | Our sample testing of additions to Property Plant and Equipment (PPE):<br>• Found costs had been correctly classified as capital and included at the correct value.<br>• Did not identify any revenue items that were incorrectly classified as capital.<br>Our review of judgements taken by management found them to be reasonable. |
| **Significant Risk** | **Findings & Conclusions** |
| Valuation of Investment Properties | Our work in this area is substantially complete. We have referred one property to EYRE and there preliminary assessment is that the property valuation is within a reasonable range. No significant valuation issues were identified in the sample tested by the local team. |
| Valuation of Land and Buildings | Our work in this area remains in progress as at 2 March 2023. Further details are set out in Section 2 of this report.<br>• Assets valued using Depreciated Replacement Cost (DRC) is substantially complete, no significant valuation issues identified to date.<br>• For assets valued on a Existing Use Value (EUV) basis, we identified two properties where we are currently challenging the valuation methodology and assumptions used by the external valuers. |

# Executive Summary

## Areas of audit focus (continued)

| Area of audit focus / Inherent risk | Findings & Conclusions |
|---|---|
| Infrastructure assets (Area of audit focus) | Changes have been made to the Local Authority Accounting Code by CIPFA and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. The Statutory Instrument and Code update temporarily resolve accounting issues in this area, and the Council has amended the disclosures in its financial statements to comply with the revised requirements. A Local Authority Accounting Panel (LAAP) bulletin has also been issued by CIPFA which covers how infrastructure assets should be depreciated. Management produced an assessment of the approach taken by the Council to depreciating infrastructure assets against this guidance. We are satisfied that the approach taken by management is reasonable |
| Pension Liability Valuation (Inherent risk) | Our planned work in this area is complete. One potential adjustment of £710k to increase the pensions asset has been identified as a result of our work. Further details are set out in Section 2 of this report. |
| PFI Accounting (inherent risk) | The Council has one material PFI arrangement. PFI accounting is a complex area and therefore more susceptible to error. Based on our work to date we are satisfied that:<br>• Inputs to the Highways PFI accounting model was supported by evidence.<br>• The model continued to operate correctly.<br>• Output from the model was correctly reflected by the relevant accounting entries and disclosures in the financial statements.<br>• PFI assets were correctly accounted for and disclosed. |
| Going Concern (Area of audit focus) | Management produced a going concern assessment to the beginning of the September 2022 which was subsequently updated in February 2023 to take account of significant budget pressures associated with macro economic factors. This is referenced to a cash flow forecast which shows ongoing liquidity over the assessment period. Our work is complete, and we are satisfied that the disclosures are appropriate. |

# Executive Summary

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

## Independence

Please refer to Section 09 for our update on Independence.

# 02 Areas of Audit Focus

# Fraud risks

**Misstatements due to fraud or error**

## What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

We have considered the areas in which management could seek to override controls at Isle of Wight Council, and this had fed into our consideration of the risk of fraud in revenue and expenditure recognition as set out on page 13.



## What judgements are we focused on?

Our assessment of risk led us to focus on journals which we deemed to be unusual or not in line with our expectations, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of assets as a potential area of manipulation, which is recorded as a separately identified Significant risk - Inappropriate capitalisation of revenue expenditure.

## What did we do?

We carried out the following procedures:

- Identified fraud risks during the planning stages.
- Enquired of management about risks of fraud and the controls put in place to address those risks
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessed accounting estimates for evidence of management bias, and
- Evaluated the business rationale for significant unusual transactions.

## What are our findings & conclusions?

Based on our work completed to date we have not identified any:

- material weaknesses in controls or evidence of material management override;
- instances of inappropriate judgements being applied; or
- any other transactions during our audit which appear unusual or outside the Council's normal course of business.

# Fraud risks (continued)

**Inappropriate capitalisation of revenue expenditure**

### What is the risk and potential impact on the financial statements?

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.

We have assessed that the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from council tax.



### What did we do?

Our approach focused on the following:

► We selected a sample of PPE additions to test and confirm the item was appropriate to capitalise as per IAS 16 through agreement to evidence such as invoices and capital expenditure authorisations.

► We reviewed REFCUS spend but this was immaterial (£2m) for 2021/22 and therefore did not provide the incentive or opportunity to materially capitalise revenue expenditure inappropriately.

### What are our conclusions?

Our sample testing of additions:

- Found costs had been correctly classified as capital and included at the correct value.
- Did not identify any revenue items that were incorrectly classified as capital.

Our review of judgements taken by management found that:

- Where relevant the capitalised spend clearly enhanced or extended the useful life of assets rather than simply repairing or maintaining the assets on which it was incurred.
- Other capitalised costs were directly attributable to bringing assets into operational use.

Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.

# Significant risk

Valuations of Investment Property (IP)

### What is the risk and potential impact on the financial statements?

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. However, some property markets have started to function again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. In light of this, in our outline Audit Planning Report issued in June 2022, we reduced the risk on investment property valuations from significant to higher inherent risk.

Upon receipt of the valuation reports from the external valuers we revisited our risk assessment and whilst the investment property portfolio has remained unchanged, there was a £6.3m (c.£18%) increase in valuation. This increase is greater than our materiality threshold £4.977m, and we therefore increased the risk to significant.



### What did we do and what judgements did we focus on?

- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuer in performing its valuation and challenged the key assumptions used by the valuer and also ensure that all IP has been revalued in-year.
- Tested accounting entries have been correctly processed in the financial statements.
- Considered the annual cycle of valuations to ensure that all investment properties have been valued annually.
- Commissioned EYRE to consider the valuation approach in more detail for one asset. The Council has a relatively small portfolio of investment property assets and our sampling focussed on the highest value property.

### What are our findings & conclusions?

As at 2 March 2023 our work in this area is substantially complete. Isle of Wight Council has a balance of £41m consisting of four investment properties. We referred one property, Unit 1 & Bus Park, Network Oxford, to EYRE for review and their preliminary assessment has not identified any material valuation issues. We expect their final memo once the remaining queries on PPE valuations have been resolved, see next page.

Local team testing on the three remaining properties has also not identified any significant valuation issues. Subject to final review, we are satisfied the valuation of IP is not materially misstated in the financial statements.

# Significant risk

## Valuation of land and buildings

### What is the risk and potential impact on the financial statements?

The value of other land and buildings represents a significant balance in the Authority's accounts and is subject to valuation changes, impairment reviews and market fluctuations which carries a high degree of estimation uncertainty. Management is required to make material judgements and apply estimation techniques to calculate the year-end balance recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The Council has appointed a new external valuer for 2021/22 with no prior experience of the Council's asset base. This further increases the level of risk. If land and buildings are incorrectly valued this could have the impact of understating or overstating the carrying value of assets and income and expenditure by a material amount



### What did we do and what judgements did we focus on?

Our work in this complex area is still ongoing. To date we:

- Considered the work performed by the Council's external valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuer.
- Tested accounting entries to ensure that they have been correctly processed in the financial statements.
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We also considered whether there are any specific changes to assets that have occurred and whether these have been communicated to the valuer.
- Reviewed assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated.
- Commissioned EYRE to consider the valuation approach in more detail for a sample of DRC and EUV assets. Sampling focussed on unexpected fluctuations in valuation year-on-year.

### What are our conclusions?

As at 2 March 2023 our work in this complex area remains in progress.

Assets valued using DRC is substantially complete, no significant valuation issues identified to date.

For assets valued on an EUV basis, we identified two properties where we are currently challenging the valuation methodology and assumptions used by the external valuers. These are:

- Newport Forest Park Site – the operational lease should be disregarded as the Council remains the owner of the building. Furthermore, due to the specialised nature of the asset, a more appropriate valuation basis would have been DRC. The valuation method adopted by the external valuer will result in a significantly lower valuation.
- Land at Fairlee Road – the external valuer valued the land using an agricultural value based on a previous annual grazing licence that was in place. This approach appears incorrect given the license is no longer in place and the operational use of the land has been disregarded. This land is utilised for the Isle of Wight Festival and is operational as it is used for tourism. The valuation method adopted by the external valuer will result in a significantly lower valuation.

# Area of audit focus

## Accounting for infrastructure assets

### What is the risk?

The gross cost of infrastructure non-current assets is material in the financial statements . Where management incur subsequent expenditure to replace part of an asset, the CIPFA Code requires management to write out the value of the old part being replaced.

Nationally, audit firms identified an issue with applying this accounting treatment to infrastructure assets. Across the country, many authorities are not keeping sufficient detailed records of infrastructure spend to allow the value of the part being replaced to be written out.

There is a need for the Council to ensure that it is has recognised and accounted for such subsequent expenditure appropriately.



### What did we do and what judgements did we focus on?

The risk is that the gross cost and gross accumulated depreciation of the Council's infrastructure assets are materially overstated, as assets or components that have been replaced are no longer recognised.

This may have no impact on the net book value if the assets were fully depreciated at the point of replacement, but if not then the net book value may also be materially misstated.

Furthermore, the Council needs to be able to demonstrate that it can associate the recorded values to specific identifiable assets; that they exist at the balance sheet date and are held at an appropriate value.

We

- Reviewed the draft financial statements to identify prima facie whether the Council is recording disposals of infrastructure assets, or components.
- We have made enquiries to understand management's current processes, including bringing forward our knowledge from previous year's audits.
- We identified whether the process is compliant with the Code.

# Area of audit focus

**What are our findings & conclusions?**

Our work in this area is in progress. We provisionally concluded that the accounting of the Council for infrastructure assets was not in line with the CIPFA Local Authority Accounting Code 2021/22 as originally issued. This was because:

- The Council does not, in all instances, record infrastructure assets within the fixed asset register on an individual basis. Although infrastructure assets are derecognised when fully depreciated, asset components are only derecognised from accounting records where the Council has sufficient information to do so and where there is a lack of information the Council processes a notional derecognition but this has not been applied consistently in previous years.
- This means the Council does not have sufficient records to show that all assets accounted for actually continue to exist and that the gross cost and accumulated depreciation of infrastructure assets are not materially overstated.

Changes were made to the Local Authority Accounting Code by CIPFA, and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. The Statutory Instrument and Code update temporarily resolve the derecognition and existence issues identified above, and the Council has amended the disclosures in its financial statements to comply with the revised requirements. A Local Authority Accounting Panel (LAAP) bulletin has also been issued by CIPFA which covers how infrastructure assets should be depreciated. Management produced an assessment of the approach taken by the Council to depreciating infrastructure assets against this guidance. We are currently reviewing management's assessment.

The Statutory Instrument and Accounting Code are only expected to provide a temporary solution to this issue, with the Code update only currently extending to 31 March 2025. We therefore raise the following recommendation for improvement.

*Recommendation* - Develop more granular accounting records and/or further supportable estimation techniques to allow for infrastructure assets and components to be derecognised when they are replaced, and to demonstrate the continued existence of assets accounted for.

# Area of audit focus

**Pension Liability Valuation**

## What is the risk?

The Code of Practice on Local Authority Accounting and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.



## What did we do and what judgements did we focus on?

We:

- Liaised with the auditors of Isle of Wight Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Isle of Wight Council.
- Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office (NAO) for all local government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- Considered outturn information available after production of the Council's draft financial statements, including year-end actual valuation of pension fund assets.
- In accordance with the ISA540 (revised) standard, we tested the actuarial model to confirm it is appropriately designed, consistently applied and mathematically accurate. We involved our EY Pensions specialists to perform this work.

## What are our findings & conclusions?

- We obtained assurances from the auditors of Isle of Wight Pension Fund that the information supplied to the actuary in relation to Isle of Wight Council was accurate and complete. We have identified a potential difference on the gross pension asset, arising from differences between the actuary's values and amount estimated from the Council's share of the final audited pension fund assets. The difference is £710k. We are currently following up this difference with management.
- We have concluded that we could rely on the work of the Pension Fund actuary, and assess their assumptions as reasonable. The values and entries from the actuarial report were correctly reflected in the Council's financial statements.
- We have assessed the work of the Pension Fund Actuary, relying on the work of PWC and the EY Actuarial team which confirmed there were no findings in respect to the actuarial assumptions.
- We have confirmed the values and entries from the actuarial report have been correctly reflected in the Council's financial statements.
- The results of the EY pensions specialist has confirmed the actuarial estimate of the gross pension liability to be accurate within a reasonable range.

# Area of audit focus

PFI Accounting

## What is the risk?

The Council has one PFI arrangement, which is material to our audit. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal specialist when the PFI was introduced. We will review the accounting entries and disclosures in relation to PFI in detail in 2021/22, with a focus on any significant changes since the specialist's review.



## What did we do and what judgements did we focus on?

We reviewed the accounting entries and disclosures in relation to the PFI disclosures for 2021/22. In doing this we considered whether there had been significant changes to the contractual arrangements since the previous year. We confirmed there were no such changes and therefore that no changes needed to be made in the year to the under-pinning accounting models for any of the PFIs. Given no changes had been made to the accounting model we were able to continue to place reliance on the prior year work of our internal expert to gain assurance it operates correctly.

We undertook testing of in-year inputs to the accounting model and agreeing relevant entries in the financial statements to year-end outputs from the accounting model. We also undertook work to gain assurance that PFI assets were correctly accounted for and disclosed on the Council's balance sheet.

## What are our findings & conclusions?

Based on our work we are satisfied that:

- Inputs to the PFI model was supported by evidence.
- The model continued to operate correctly.
- Output from the model was correctly reflected by the relevant accounting entries and disclosures in the financial statements.
- PFI assets were correctly accounted for and disclosed.

# Area of audit focus

## Going concern

### What is the risk?

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

### What did we do and what judgements did we focus on?

We:

- Challenged management's identification of events or conditions impacting going concern.
- Tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewed the Council's cashflow forecast covering the foreseeable future to ensure that it has sufficient liquidity to continue to operate as a going concern, including an assessment of any underlying need to borrow.
- Undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, in drawing our conclusions on going concern.
- Challenged the disclosure made in the accounts in respect of going concern and any material uncertainties.

### What are our findings & conclusions?

Management produced a going concern assessment to the beginning of the September 2022 which was subsequently updated in February 2023 to take account of significant budget pressures associated with macro economic factors. This is referenced to a cash flow forecast which shows ongoing liquidity over the assessment period. We also reviewed and further challenged the going concern disclosure made by the Council.

Based on all of this we are satisfied that management's assessment is reasonable and supportable, and that disclosures in the financial statements are an adequate reflection of management's assessment that it remains appropriate to prepare the financial statements on a going concern basis.



# 03 Audit Report

# Draft audit report

## DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ISLE OF WIGHT COUNCIL

### Our opinion on the financial statements



Opinion

We have audited the financial statements of Isle of Wight Council for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement , Movement in Reserves Statement, Balance Sheet, Cash Flow Statement and the related notes 1 to 53 and Expenditure and Funding Analysis; and the Collection Fund and the related notes 1 to 6.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give a true and fair view of the financial position of Isle of Wight Council as at 31 March 2022 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts 2021/22, other than the financial statements and our auditor's report thereon. The Director of Finance is responsible for the other information contained within the Statement of Accounts 2021/22.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is

# Draft audit report

## DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Isle of Wight COUNCIL

### Our opinion on the financial statements

a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- w we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)
- we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in these respects.



Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 5, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these

# Draft audit report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Isle of Wight COUNCIL

## Our opinion on the financial statements

financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council and determined that the most significant are:

- Local Government Act 1972,
- Local Government and Housing Act 1989 (England and Wales),
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020 and 2022,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948),
- The Local Audit and Accountability Act 2014 (as amended),
- The Accounts and Audit Regulations 2015.

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health and safety.

We understood how Isle of Wight Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified, inappropriate capitalisation of revenue expenditure and management override of controls and to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine. We also reviewed journal postings to identify any inappropriate reclassification of revenue expenditure as capital.

To address our fraud risk of management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

# Draft audit report

## DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Isle of Wight COUNCIL

### Our opinion on the financial statements



A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criterion issued by the Comptroller and Auditor General in December 2021, as to whether the Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2022. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Isle of Wight Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.


# 04 Audit Differences

# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted and uncorrected differences

We highlight the following misstatements greater than £4.977m which have been corrected by management that were identified during the course of our audit. To date there are no such items to report.

We report to you any uncorrected misstatements greater than our nominal value of £249k.

There is one misstatement to bring to your attention at the time of writing this report, based on the preliminary findings of our local audit team and the Pension Fund auditors

- IAS 19 - £710k adjustment to increase to pensions asset value as per section 2.

Depending on the findings from the outstanding areas of audit testing, there is the potential for further misstatements and the cumulative impact of errors may become material and require adjusting. We will provide an update to the Audit Committee at the meeting on 20 March 2023.

A number of other amendments have also been made to disclosures appearing in the financial statements as a result of our work to date, including related parties, senior officer pay and termination benefits which included an adjustment to prior year figures. As communicated in our Audit Planning Report, we set a separate materiality of £2.5k for remuneration disclosures, related party transactions, members’ allowances and exit packages, which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these areas.

During our testing of termination benefits, we identified payments in lieu of notice and payment in lieu of holiday was not disclosed as part of termination benefits in note 37 resulting in an understatement £14k in the current year and £24k in the prior year. The termination benefits disclosure has been restated in both the current and prior year.

# 05 Value for Money

# Value for money

## The Council's responsibilities for value for money (VFM)

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

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in an annual governance statement. In preparing its annual governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA Code of Practice on Local Authority Accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Risk assessment

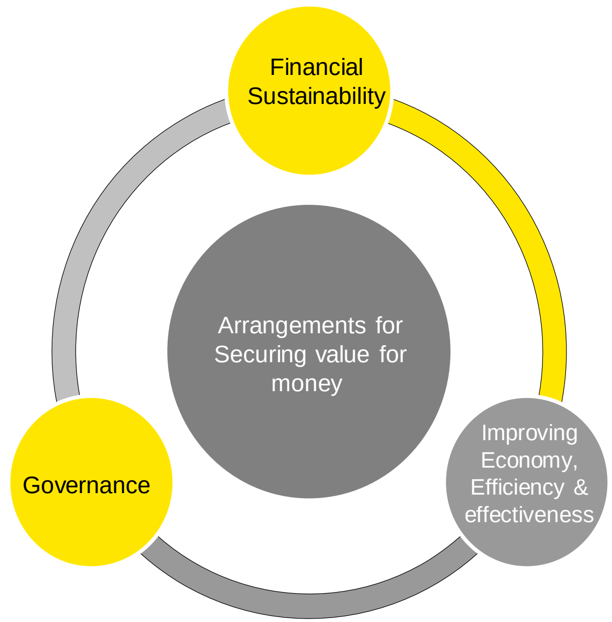
We have previously reported to the Council in our Audit Plan that our assessment of the risk of significant weaknesses in the Council's VFM arrangements remained ongoing. At this stage of completion of our procedures, we have not identified any risks of significant weaknesses in the Council's arrangements.



## Status of our VFM work

We have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03).

We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report.



# 06 Other reporting issues

# Other reporting issues

## Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Financial Report 2021/22 with the audited financial statements.

Financial information in the Narrative Statement and published with the financial statements was consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.



## Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the NAO. We have not yet been able to perform the procedures required on the Whole of Government Accounts submission for 2021/22. However, we do not expect any issues in performing this work as the Council falls below the threshold set within the guidance from HM Treasury and the group audit instructions for 2021/22 on which our work is based. The audit certificate will be issued once this work is complete.

## Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Isle of Wight Council’s financial reporting process. We have no other matters to report.

# 07 Assessment of Control Environment

# Assessment of Control Environment

## Financial Controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

# 08 Data Analytics

# Data analytics – Journal Entries

Analytics Driven Audit



## Data Analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2021/22, our use of these analysers in the Council's audit included gaining a deeper understanding of the data sources which are used in each significant class of transactions and therefore allowing us to tailor our testing accordingly dependant on the nature of the source entries. We tested specific journal entries which we deem to have the highest inherent risk to the audit, including unusual transactions not consistent with the rest of the population.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

### Journal Entry Analysis

We obtain downloads of all of the Council's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report. Our testing of journals did not identify any additional risks of material misstatement.

# 09 Independence

# 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 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Services provided by Ernst & Young

The next page sets out a summary of the fees that are relevant to the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

# Independence

## Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Council.

As part of our reporting on our independence, to the right we set out a summary of the fees related to the year ended 31 March 2022.

| Description | Final Fee 2021/22 £ | Planned Fee 2021/22 £ | Final Fee 2020/21 £ |
|---|---|---|---|
| Scale Fee | 98,602 | 98,602 | 98,602 |
| Scale Fee Rebasing (1) | 51,644 | 51,627 | 28,075 |
| Revised Proposed Scale Fee | 150,246 | 150,246 | 126.677 |
| Scale Fee Variation (2) | TBC | 28,900 | 40,787 |
| Total Audit Fee | TBC | 179,129 | 167,464 |

(1) As detailed in our 2021/22 Auditor's Annual Report we submitted a proposed rebasing of the scale fee for £51,627. PSAA have approved the 20/21 Scale Fee Variation (including rebasing element) as shown. We continue to record the same rebasing figure for 21/22 as we submitted for 20/21.

(2) For 2021/22, the scale fee will be impacted by a range of factors which has resulted in additional work. The issues we have identified which will impact on the fee include:

- The need to engage EY Pensions to review assumptions used in the Pensions IAS19 liability. Estimated value £1,500.
- Additional work required for PPE and IP valuations, including the involvement of EYRE. Estimated value £9,000
- Additional fee for changes in audit requirements: VFM and ISA 540 (estimates). Estimated value £14,400
- Additional work required for going concern and covid-19 considerations. Estimated value £4,000
- Additional work highlighted in section 2 to review the Council's infrastructure assets. Estimated value TBC
- Errors and amendments identified in section 4 above and any further errors identified during our completion of the outstanding areas highlighted in section 1.

# Other communications

## EY Transparency Report 2022

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022:

EY UK Transparency Report | EY UK

# 10 Appendices

# Required communications with the Audit Committee

There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Terms of engagement | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter. | Audit Planning Report – July 2022 |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.<br>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. | Audit Planning Report – July 2022 |
| Significant findings from the audit | • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>• Significant difficulties, if any, encountered during the audit<br>• Significant matters, if any, arising from the audit that were discussed with management<br>• Written representations that we are seeking<br>• Expected modifications to the audit report<br>• Other matters if any, significant to the oversight of the financial reporting process | Audit Results Report – March 2023 |

# Appendix A

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>• Whether the events or conditions constitute a material uncertainty related to going concern<br>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>• The appropriateness of related disclosures in the financial statements | No conditions or events were identified, either individually or together to raise any doubt about Isle of Wight Council's ability to continue for the 12 months from the date of our report |
| Misstatements | • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation<br>• The effect of uncorrected misstatements related to prior periods<br>• A request that any uncorrected misstatement be corrected<br>• Material misstatements corrected by management | Audit Results Report – March 2023 |
| Subsequent events | • Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | Audit Results Report – March 2023 |
| Fraud | • Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity<br>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>• Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:<br>a. Management;<br>b. Employees who have significant roles in internal control; or<br>c. Others where the fraud results in a material misstatement in the financial statements.<br>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>• Any other matters related to fraud, relevant to Audit Committee responsibility. | Audit Results Report – March 2023 |

# Appendix A

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Related parties | Significant matters arising during the audit in connection with the entity's related parties including, when applicable:<br>• Non-disclosure by management<br>• Inappropriate authorisation and approval of transactions<br>• Disagreement over disclosures<br>• Non-compliance with laws and regulations<br>• Difficulty in identifying the party that ultimately controls the entity | Audit Results Report – March 2023 |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>• The principal threats<br>• Safeguards adopted and their effectiveness<br>• An overall assessment of threats and safeguards<br>• Information about the general policies and process within the firm to maintain objectivity and independence | Audit Results Report – March 2023 |
| External confirmations | • Management's refusal for us to request confirmations<br>• Inability to obtain relevant and reliable audit evidence from other procedures. | We have received all requested confirmations |
| Consideration of laws and regulations | • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur<br>• Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of | We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations |
| Significant deficiencies in internal controls identified during the audit | • Significant deficiencies in internal controls identified during the audit. | We have not identified any significant deficiencies in internal controls |

# Appendix A

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Written representations we are requesting from management and/or those charged with governance | • Written representations we are requesting from management and/or those charged with governance | Audit Results Report – March 2023 |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | • Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit Results Report – March 2023 |
| Auditors report | • Key audit matters that we will include in our auditor's report<br>• Any circumstances identified that affect the form and content of our auditor's report | Audit results report – March 2023<br><br>No such circumstances identified |

# Draft management representation letter

## Management Rep Letter

This letter of representations is provided in connection with your audit of the financial statements of Isle of Wight Council ("the Council") for the year ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Isle of Wight Council as of 31 March 2022 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).



We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022). We have approved the financial statements.

2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022). We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic and of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

# Draft management representation letter

## Management Rep Letter



4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

3. We have made available to you all minutes of the meetings of the Council and committees held through 2021/22 to the most recent meeting of the Audit Committee held on…….[*to be completed]*.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter at 6 December 2021 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

# Draft management representation letter

## Management Rep Letter

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 49 to the financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 1.29 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events



1. Other than as described in the financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the financial statements.

2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), aligned with the statements we have made in the other information or other public communications made by us.

I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings classified as property, plant & equipment, investment property and valuation of pension liabilities and assets, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

K. Estimates

1. We confirm that the significant judgments made in making the estimates for pension liabilities and the valuations of property, plant and equipment and investment properties have taken into account all relevant information of which we are aware

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in performing the revaluation of land and buildings classified as PPE and IP.

3. We confirm that the significant assumptions used in performing the revaluation of land and buildings classified as PPE and IP appropriately reflect our intent and ability to carry out the revaluation on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

5. We confirm that appropriate specialized skills or expertise has been applied in making the estimates.

6. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements, including due to the COVID-19 pandemic

# Draft management representation letter

## Management Rep Letter

L. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

______________________

Chris Ward, Director of Finance

______________________

Councillor Andrew Garratt, Chairman of the Audit Committee

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# Isle of Wight Pension Fund

## Audit results report

Year ended 31 March 2022

March 2023

Building a better working world



Agenda Item 5b

Isle of Wight Council
County Hall
High Street
Newport, Isle of Wight PO30 1UD

8 March 2023

Dear Audit Committee Members

We are pleased to attach an audit results report for the forthcoming meeting of the Audit Committee. We will update the Committee at its meeting on 20 March 2023 on further progress to that date and explain the remaining steps for the issue of our final opinion.

The audit is designed to express an opinion on the 2021/22 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Isle of Wight Pension Fund's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

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 Committee meeting on 20 March 2023

Helen Thompson

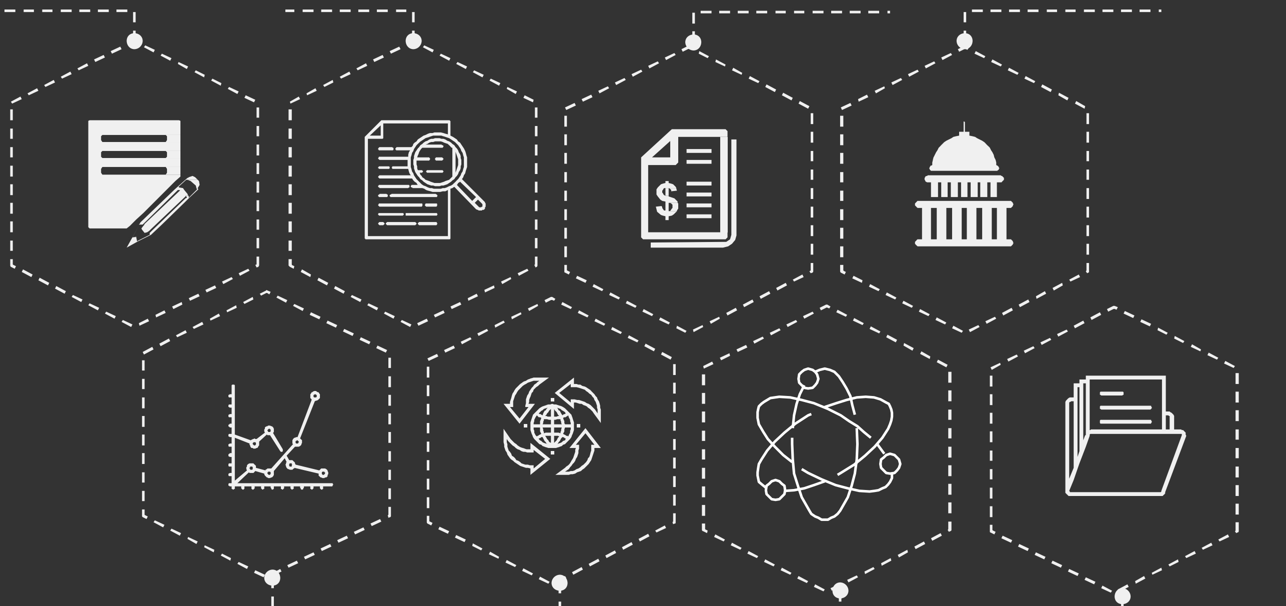
Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents







Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Isle of Wight Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Isle of Wight Pension Fund 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 Isle of Wight Pension Fund 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

## Scope update

In our audit planning report presented to the 25 July 2022 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan with the following updates.

Changes in materiality

We updated our planning materiality assessment using the draft financial statements.

| | Planning Materiality | Performance Materiality | Audit Differences |
|---|---|---|---|
| | Our planning materiality represents 1% of the Fund's net assets, consistent year on year. | Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year. | We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality. |
| Planned | £6.91 million | £5.2 million | £0.35 million |
| Final | £7.281 million | £5.461 million | £0.364 million |



We also reconsidered our risk assessment, and identified the following additional risks:

Valuation of infrastructure assets – significant risk

Investments at Level 3 are those where at least one input that could have a significant effect on the asset's valuation is not based on observable market data. The Pension Fund invested in infrastructure assets for the first time during 2021/22. Significant judgements are made by the investment managers or administrators to value these investments whose prices are not publicly available. Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statement.

IAS 26 disclosures – area of audit focus

We consider the valuation of IAS 26 to be of a higher degree of inherent risk because of the level of estimation uncertainty resulting from the calculation using a number of underlying assumptions. The actuary is required to make assumptions on salary increases, discount rates, pension rates, scheme member longevity and other variables. While IAS 26 does not inform the primary statements, there is stakeholder interest in this disclosure due to its nature.

# Executive Summary

## Status of the audit

Our audit work in respect of the Fund opinion is substantially complete. We will need to complete the following remaining closing procedures prior to issuing our audit opinion:

- Update of our subsequent events procedures to the date of our opinion
- Review of the final version of the financial statements
- Receipt of a signed letter of management representation

## Audit differences

At the date of this report there are no unadjusted or adjusted audit differences which require your attention.

# Executive Summary

## Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Pension Fund's financial statements. We summarise below our latest findings.

This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised in the "Areas of Audit Focus" section of this report.

| Fraud risks | Findings & conclusions |
|---|---|
| Misstatements due to fraud or error | We carried out standard procedures to address fraud risks as set out in our audit plan, including identifying risks, considering controls and their effectiveness, testing journal entries and looking at estimates for evidence of management bias. Using data analytics is central to our approach.<br><br>we have completed our work in this area and have no matters to bring to your attention. |
| Risk of manipulation of Investment income. | We performed a reconciliation between the fund managers reports and the custodian reports. We also performed specific journal entry testing in response to this risk.<br><br>we have completed our work in this area and have no matters to bring to your attention. |



| Significant risk | Findings & conclusions |
|---|---|
| Valuation of complex investments (Level 3 Fair Value hierarchy) | We undertook additional procedures, as described more fully in Section 2 of this report, to gain assurance over the year-end valuation of the Fund's Private Debt and Infrastructure Assets investments.<br><br>We have completed our work in this area and have no matters to bring to your attention. |

| Areas of audit focus | Findings & conclusions |
|---|---|
| Disclosure on Going Concern | We obtained management's going concern assessment and the adequacy of the disclosures in the financial statements.<br><br>We have completed our work in this area and have no matters to bring to your attention. |
| IAS 26 | We carried out procedures as described more fully in Section 2 of this report, to gain assurance over the IAS 26 actuarial statement and the associated disclosure of the actuarial present value of promised retirement benefits as a note to the accounts.<br><br>We have completed our work in this area and have no other matters to bring to your attention. |

# Executive Summary

## Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

## Independence

Please refer to Section 7 for our update on Independence.




# 02 Areas of Audit Focus

# Fraud risk

## Misstatements due to fraud or error and the risk of manipulation of Investment income.

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

### What judgements are we focused on?



The risk of management override at the Fund is mainly through the possibility that management could override controls and manipulate in-year financial transactions which intend to adjust the reported Fund Account.

We have assessed that the risk of manipulation of investment income through management override of controls is most likely to affect investment income in the year, specifically through journal postings.

### What did we do?

We:

- Reviewed journals throughout the year and at year-end to ensure there were no unexpected trends or unusual postings. This included reviewing the movement of income, expenditure , assets and liability transactions on the general ledger to identify postings that may be indicative of the manipulation of investment income and valuation by management. Unusual or unexpected journal postings, including any which were indicative of management override, were tested further;
- Undertook a review of reconciliations to the fund manager, custodian and valuer reports and investigated any reconciling differences;
- Re-performed the detailed investment note using the reports we have acquired directly from the custodian, valuer or fund managers;
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
- Reviewed accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk.

### What are our conclusions?

We have not identified any material evidence of material management override. Specifically:

- Our review of trends in general ledger data, and detailed consideration of unusual or unexpected journal postings, did not identify any journal entries that suggested the manipulation of accounting records or override or controls by management.
- We were able to reconcile fund manager, custodian and valuer reports to investments valuations disclosed in the financial statements with no material differences.
- We were able to agree the detailed investment note using reports directly from the custodian, valuer or fund managers.
- We checked the reconciliation of holdings included in the Net Assets Statement back to the source reports.
- Our review of accounting estimates, including estimates with a higher level of inherent risk, identified no evidence of management bias.

# Significant risk

## Valuation of complex Investments (Level 3 Fair Value hierarchy)

### What is the risk?

Investments at Level 3 are those where at least one input that could have a significant effect on the asset's valuation is not based on observable market data.

Significant judgements are made by the investment managers or administrators to value these investments whose prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error.

Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.



### What judgements are we focused on?

The judgements we are focussed on are the date of the data and prices used when information is not publicly available. For these we have performed analytical procedures and obtained third party confirmations to verify.

# Significant risk

**What are our conclusions?**

We:

- Agreed the population of investment assets accounted for in the financial statements to individual underlying fund manager valuation reports to 31 March 2022.
- Both the private debt and infrastructure assets fund last audited financial statements were at 31 December 2021. We evaluated those financial statements to gain assurance that Where audited financial statements supporting the investments were not available at the net asset statement date we agreed the Net Asset Value (NAV) in fund manager reports at 31 December 2021 to audited financial statements at that date. Further assurance was obtained as set out below.
- Obtained controls assurance reports from fund managers. As these were not to 31 March 2022 we obtained bridging confirmation to the year end date. Both fund managers (Goldman Sachs and Partners Group) do not routinely provide bridging letters. However, we have sought and obtained confirmation via email that to the best of their knowledge, there have been no material issue identified subsequent to the report being completed nor have there been any material changes to the control framework. We evaluated the overall assurance given and any specific control failures. We specifically considered controls that relate to valuation for exceptions or issues that may caveat the assurance given.
- Evaluated the underpinning audited fund financial statements for each fund to ensure they were unqualified, had no other potentially relevant reporting points and were issued by a reputable auditor. Where relevant, where audited financial statements were not available at 31 March 2022 we adjusted the 31 December 2021 (quarter 3) valuation for known cash flow movements in the final quarter of the year, assuming they occurred at the start of quarter 4. We then obtained quarter 3 to 4 indices relevant to the type of investment to create a high/low range of movements for quarter 4 and applied that to the valuation derived for each investment at 31 December 2021. We confirmed that the range established was not greater than our performance materiality.
- Compared the valuation in the financial statements to the range established above to gain assurance they were within range to a tolerance of performance materiality.

Conclusion: We are satisfied that the valuation of the Fund's level 3 investments is materially correct in the financial statements. There were no significant reporting points or areas of concern arising from the procedures undertaken to draw to your attention.

Significant Risk

# Areas of Audit Focus

| What is the risk/area of focus? | What did we do? |
| --- | --- |
| <u>Disclosures on going concern</u><br><br>There is a presumption that the Pension Fund will continue as a going concern for the foreseeable future. However, the Fund is required to carry out a going concern assessment that is proportionate to the risks it faces and that the assessment, including the cashflow forecast, is comprehensive.<br><br>The Fund is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.<br><br>Given the available levels of liquid investment assets, we do not consider there to be a risk to the Fund's going concern status. We do consider the unpredictability of the current environment to give rise to a risk that the Pension Fund may not appropriately disclose the key factors relating to going concern. | We have:<br><br>• Assessed the adequacy of disclosures required in 2021/22;<br>• Obtained management's going concern assessment and reviewed for any evidence of bias and consistency with the accounts;<br>• Reviewed the Fund's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern;<br>• Undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we drew our conclusions on going concern; and<br>• Challenged the disclosure made in the accounts in respect of going concern.<br><br>Conclusion: We have completed our review of the management assessment and proposed disclosure. We have no issues to bring to your attention. |
| <u>IAS 26</u><br><br>We consider the valuation of IAS 26 to be of a higher degree of inherent risk because of the level of estimation uncertainty resulting from the calculation using a number of underlying assumptions. The actuary is required to make assumptions on salary increases, discount rates, pension rates, scheme member longevity and other variables. While IAS 26 does not inform the primary statements, there is stakeholder interest in this disclosure due to it's nature. | We have:<br><br>• Agreed the disclosure to the IAS 26 actuarial statement and reporting requirements<br>• Engaged auditor's specialists to review the IAS 26 calculation approach and comment on the underlying assumption.<br>• Reviewed the work of the management specialist (Hymans Robertson, the actuary) and auditor's specialist.<br>• Considered the controls used by Hymans Robertson in undertaking the calculation.<br>• Performed IAS 19 procedures, which give us assurance over the data input into the calculation.<br><br>Conclusion: We have completed our work in this area and have no matters to bring to your attention. |



# 03 Audit Report

# Draft audit report

## Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ISLE OF WIGHT PENSION FUND

Opinion

We have audited the Pension Fund financial statements for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The pension fund financial statements comprise the Fund Account, the Net Asset Statement and the related notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In our opinion the Pension Fund financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2022 and the amount and disposition at that date of the its assets and liabilities as at 31 March 2022; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council as administering authority for the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finances' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of 12 months from when the Fund's financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Fund's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts 2021/22, other than the financial statements and our auditor's report thereon. The Director of Finance is responsible for the other information contained within the Statement of Accounts 2021/22.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended);

# Draft audit report

## Our opinion on the financial statements

- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended);
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended); or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended).

We have nothing to report in these respects.

Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 5, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the Pension Fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Administering Authority either intends to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with the Director of Finance.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.
- We understood how the Pension Fund is complying with those frameworks by making enquiries of the management. We corroborated this through our reading of the Pension Committee minutes.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the management for their awareness of any non-compliance of laws or regulations, inspecting correspondence with the Pensions Regulator and review of minutes.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Pension Fund has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk.

# Draft audit report

## Our opinion on the financial statements

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

To address our fraud risk of manipulation of investment income and valuation we:

- Undertook a review of reconciliations to the fund manager, custodian and valuer reports and investigated any reconciling differences;
- Re-performed the detailed investment note using the reports we have acquired directly from the custodian, valuer or fund managers;
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
- Reviewed accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk.

The Pension Fund is required to comply with The Local Government Pensions Scheme regulations, other legislation relevant to the governance and administration of the Local Government Pension Scheme and requirements imposed by the Pension Regulator in relation to the Local Government Pension Scheme. As such, we have considered the experience and expertise of the engagement team including the use of specialists, to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Fund with these regulations as part of our audit procedures.

Use of our report

This report is made solely to the members of Isle of Wight Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Isle of Wight Council and its members as a body, for our audit work, for this report, or for the opinions we have formed.


# 04 Audit Differences

# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of audit differences

Other than some minor misstatements in disclosure notes, there were no unadjusted or adjusted audit differences above our reporting threshold.

# 05 Other reporting issues

# Other reporting issues

## Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2021/22 with the audited pension fund financial statements.

Financial and non-Financial information in the Statement of Accounts 2021/22 was consistent with the audited pension fund financial statements.

In addition, we also perform procedures to ensure the consistency of the pension fund accounts with the version presented in the Pension Fund's Annual Report. We have no issues to draw to your attention.



## Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have had no reason to exercise these duties.

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund’s financial reporting process. We have no matters to report.



# 06 Assessment of Control Environment

# Assessment of Control Environment

## Financial controls

Our responsibilities

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

Findings

We have not identified any significant deficiencies in internal control.

# 07 Independence

# Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Fund, and its members and senior management and its affiliates, including all services provided by us and our network to the Fund, 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 1 April 2020 to the date of this report which we consider may reasonably be thought to bear on our independence and objectivity.

## Services provided by Ernst & Young

The table below sets out a summary of the fees that are due for the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

| Description | Final Fee 2021/22<br>£ | Planned Fee 2021/22<br>£ | Final Fee 2020/21<br>£ |
|---|---|---|---|
| Scale Fee – Code work | 16,235 | 16,235 | 16,235 |
| Fee variations (see Note 1). | TBC | 4,000 – 5,000 | 18,275 |
| PSAA pre-approved additional fee for ISA540 (See Notes 1 and 2) | 1,899 | 1,899 | - |
| Total Fees | TBC | 22,135 – 23,125 | 34,510 |

Note 1 – In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £36,000. PSAA determined an additional scale fee variation of £18,275 for 2020/21, £1,899 of this relates to ISA540 Estimates and £3,750 relates to the valuation of level 3 investment testing. The remaining £12,626 relates to other work areas and was determined on a non-recurrent basis. We expect similar recurrent costs to our assessment in 2021/22 and subsequent years. However, PSAA has stated that this will need to be determined each year.

Note 2 - PSAA communicated a range of fees in August 2021 for the revised International Standard of Auditing 540 on Estimates. In the absence of further information, we have rolled this forward for 2021/22.

# Other communications

## EY Transparency Report 2022

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022:

EY UK Transparency Report | EY UK

# 08 Appendices

# Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Terms of engagement | Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit Planning Report, July 2022 meeting of the Audit Committee. |
| Significant findings from the audit | • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>• Significant difficulties, if any, encountered during the audit<br>• Significant matters, if any, arising from the audit that were discussed with management<br>• Written representations that we are seeking<br>• Expected modifications to the audit report<br>• Other matters if any, significant to the oversight of the financial reporting process | Audit Results Report, March 2023 |

# Appendix A

| Required communications | What is reported? | Our Reporting to you<br>When and where |
|---|---|---|
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>• Whether the events or conditions constitute a material uncertainty<br>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>• The adequacy of related disclosures in the financial statements | Audit Results Report, March 2023<br>No conditions or events were identified, either individually or together to raise any doubt about the Fund's ability to continue for the 12 months from the date of our report |
| Misstatements | • Uncorrected misstatements and their effect on our audit opinion<br>• The effect of uncorrected misstatements related to prior periods<br>• A request that any uncorrected misstatement be corrected<br>• Material misstatements corrected by management | Audit Results Report, March 2023 |
| Subsequent events | • Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | Attending the Audit Committee – 20 March 2023 |
| Fraud | • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Fund<br>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:<br>a. Management;<br>b. Employees who have significant roles in internal control; or<br>c. Others where the fraud results in a material misstatement in the financial statements.<br>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>• Any other matters related to fraud, relevant to Audit Committee responsibility. | Formal enquiry letter sent and response received from Chair of the Audit Committee.<br>and<br>Audit Results Report, March 2023 |

# Appendix A

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Related parties | Significant matters arising during the audit in connection with the Fund's related parties including, when applicable:<br>• Non-disclosure by management<br>• Inappropriate authorisation and approval of transactions<br>• Disagreement over disclosures<br>• Non-compliance with laws and regulations<br>• Difficulty in identifying the party that ultimately controls the Fund | Audit results report March 2023 |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>• The principal threats<br>• Safeguards adopted and their effectiveness<br>• An overall assessment of threats and safeguards<br>• Information about the general policies and process within the firm to maintain objectivity and independence<br>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.<br>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:<br>• Relationships between EY, the company and senior management, its affiliates and its connected parties<br>• Services provided by EY that may reasonably bear on the auditors' objectivity and independence<br>• Related safeguards<br>• Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees<br>• A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit | Audit planning report July 2022<br>and<br>Audit results report March 2023 |

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# Appendix A

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| | • Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy<br>• Details of any contingent fee arrangements for non-audit services<br>• Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard<br>• The audit committee should also be provided an opportunity to discuss matters affecting auditor independence | |
| External confirmations | • Management's refusal for us to request confirmations<br>• Inability to obtain relevant and reliable audit evidence from other procedures. | We have received all requested confirmations |
| Consideration of laws and regulations | • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur<br>• Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of | We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations |
| Significant deficiencies in internal controls identified during the audit | • Significant deficiencies in internal controls identified during the audit. | Audit Results Report, March 2023 |

# Appendix A

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Written representations we are requesting from management and/or those charged with governance | • Written representations we are requesting from management and/or those charged with governance | Audit results report March 2023 |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | • Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report March 2023 |
| Auditors report | • Any circumstances identified that affect the form and content of our auditor's report | Audit results report March 2023 |
| Fee Reporting | • Breakdown of fee information when the audit planning report is agreed<br>• Breakdown of fee information at the completion of the audit<br>• Any non-audit work | Audit Planning Report, July 2022<br>Audit Results Report, March 2023 |

# Management representation letter

Isle of Wight Pension Fund.

## Management Representation Letter

Helen Thompson
Partner
Ernst & Young LLP
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE



This letter of representations is provided in connection with your audit of the financial statements of Isle of Wight Pension Fund ("the Fund") for the year ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 01 April 2021 to 31 March 2022 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2022, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1.We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and are free of material misstatements, including omissions. We have approved the financial statements.

# Management representation letter

4.The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/2022 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.
6.There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with laws and regulations including fraud
1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
• Involving financial improprieties
• Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
• Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
• Involving management, or employees who have significant roles in internal control, or others
• In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions
1. We have provided you with:
• Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
• Additional information that you have requested from us for the purpose of the audit.
• Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

# Management representation letter



2.You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.
4. We have made available to you all minutes of the meetings of the Audit Committee and Pensions Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
8. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/2022
9. From the date of our last management representation letter on 6 December 2021, through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.
10. From the date of our last management representation letter through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies
1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

E. Going Concern
3. Note 2 to the financial statements discloses all the matters of which we are aware that are relevant to the Fund's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

# Management representation letter

F. Subsequent Events

1. Other than the events described in Note 6 to the financial statements, there have been no events , including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information included in the Statement of Accounts 2021/22, other than the financial statements and our auditor's report thereon.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

I. Derivative Financial Instruments

1. We confirm that the Fund has made no direct investment in derivative financial instruments.

J. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

K. Actuarial valuation

1. The latest report of the actuary Hymans Robertson as at 31 March 2020 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on their report.

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the property portfolio and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

# Management representation letter

M. Estimates

1. We confirm that the significant judgments made in making the IAS26 disclosure and private debt and infrastructure investment valuations estimates ("the accounting estimates") have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimates.
3. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22
5. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

EY | Assurance | Tax | Transactions | Advisory

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ED None



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Purpose: For Decision

# Committee report

| | |
|---|---|
| Committee | **AUDIT COMMITTEE** |
| Date | **20 MARCH 2023** |
| Title | **APPROVAL OF THE FINAL STATEMENT OF ACCOUNTS 2021-22** |
| Report of | **DIRECTOR OF FINANCE AND SECTION 151 OFFICER** |

## EXECUTIVE SUMMARY

1. This report seeks approval for the council's Statement of Accounts for 2021-22 following completion of the external audit process, and having given due consideration to the content of the external auditor's Audit Results Report which is also on the agenda for this meeting of the committee.

2. The Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021 require approval of the Statement of Accounts by councillors no later than 30 September 2022 or as soon as reasonably practical after receipt of the auditor's report containing the final findings from the audit. Following approval, the accounts must be signed and dated by the person presiding at the meeting and published on the council's website, together with the report and opinion issued by the auditor.

## RECOMMENDATION

3. Option 1 – That the 2021-22 Statement of Accounts be approved, and the person presiding be authorised to sign and date the Statement of Accounts.

4. That the Chair of the Audit Committee and Director of Finance and Section 151 Officer be given delegated authority to make any final changes necessary as a result of the final conclusion of the audit process.

## BACKGROUND

5. Under the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021, the director of finance and section 151 officer is required to sign and date the Statement of Accounts, and confirm that he was satisfied that the accounts presented a true and fair view of the financial position of the authority as at 31 March 2022 and of the authority's income and expenditure for 2021-22, by 31 July 2022.

6. The Director of Finance and Section 151 Officer signed the draft Statement of Accounts on 29 July 2022 to confirm that he was satisfied that the accounts presented a true and fair view of the financial position of the authority at 31 March 2022 and of the authority's income and expenditure for 2021-22. These draft accounts were then made available to the council's external auditors.

7. After considering comments from the auditors, and making amendments that he felt to be appropriate, the director of finance and section 151 officer has re-confirmed that he is satisfied that the Statement of Accounts presents a true and fair view of the financial position of the authority at 31 March 2022 and of the authority's income and expenditure for 2021-22.

8. The Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021 now require councillors to:
   a) consider the Statement of Accounts;
   b) approve the Statement of Accounts by a resolution;
   c) ensure that the Statement of Accounts is signed and dated by the person presiding at the committee at which approval is given.

9. The Isle of Wight Council discharges these responsibilities through the Audit Committee.

10. In considering the Statement of Accounts the committee should take into account any comments made by the auditor.

11. Under the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021, the council must publish the accounts together with any certificate or opinion entered by the auditor by 30 September 2022.

12. As the audit of accounts had not been concluded before 30 September a notice was published on the council's website stating that it has not been able to publish the statement of accounts and the reasons, as required by the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

13. This approval of the council's Statement of Accounts and the overall stewardship of public funds form an integral part of the council's corporate governance framework and makes a positive contribution towards the council's Corporate Plan 2021-2025 as it relates directly to the achievement of the key activity 'Keep the council solvent and take all the measures we can to improve its financial position' and supports the corporate outcome of 'Understands the work of the council and the challenges it faces.'

CONSULTATION

14. The Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021 require the council's accounts and accounting records to be available for inspection by members of the public for a period of 30 working days. For 2021-22, the accounts and supporting records were available for inspection from 1 August to 9 September 2022. The regulations also require local

government electors to be notified that the Statement of Accounts is available for inspection as soon as the audit has been completed.

FINANCIAL / BUDGET IMPLICATIONS

15. There are no direct financial implications associated with this report.

16. The format of the financial information contained in the Statement of Accounts is required to comply with external reporting requirements, codes of practice and the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021.

LEGAL IMPLICATIONS

17. The director of finance and section 151 officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021 to ensure that the council's budgeting, financial management and accounting practices meet the relevant statutory and professional requirements.

18. If the Statement of Accounts is not approved by the committee by 30 September 2022, the council is required to publish on its website a notice stating that it has not been able to publish the statement of accounts and the reasons for this, as required by the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021. Failure to approve and publish the accounts as set out in the regulations would represent a potential risk to the reputation of the council.

EQUALITY AND DIVERSITY

19. The council as a public body is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

OPTIONS

20. The Audit Committee now has two options:

    a) Option 1 - That the 2021-22 Statement of Accounts be approved, and the person presiding be authorised to sign and date the Statement of Accounts.

    b) Option 2 - To identify areas of concern and not approve the 2021-22 Statement of Accounts.

RISK MANAGEMENT

21. To comply with the requirements of the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021, the council must publish the approved Statement of Accounts by 30 September or as soon as

reasonably practical after receipt of the auditor's report containing the final findings from the audit, together with any certificate or opinion issued by the auditor. The council has delegated the authority to approve the Statement of Accounts to the Audit Committee. The approval decision should be made after taking into account any comments made by the auditor.

EVALUATION

22. To comply with the requirements of the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021, the council must publish the approved Statement of Accounts by 30 September or as soon as reasonably practical after receipt of the auditor's report containing the final findings from the audit, together with any certificate or opinion issued by the auditor. The council has delegated the authority to approve the Statement of Accounts to the Audit Committee. The approval decision should be made after taking into account any comments made by the auditor.

APPENDICES ATTACHED

23. Appendix 1 – Final Statement of Accounts 2021-22

24. Appendix 2 – Narrative report to the Isle of Wight Council Statement of Accounts

Contact Point: Chris Ward, Director of Finance and S151 Officer, e-mail chris.ward@portsmouthcc.gov.uk

| CHRIS WARD | COUNCILLOR CHRIS JARMAN |
|---|---|
| *Director of Finance and Section 151 Officer* | *Cabinet Member for Strategic Finance, Transformational Change and Corporate Resources* |

# Isle of Wight Council

# Statement of Accounts

# 2021-22

**CONTENTS**

## Narrative report

In accordance with the Accounts and Audit Regulations 2015 the council is required to prepare a narrative report in respect of each financial year. The narrative report must include comment by the council on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.

The narrative report has been produced as a separate document and can be downloaded from the following web link: https://www.iwight.com/Council/OtherServices/Financial-Management/Accounts1

## Annual Governance Statement

In order to evaluate good governance in practice, there is also a statutory requirement under the Accounts and Audit Regulations 2015 for every local council to prepare and publish an annual governance statement. This provides members of the public with an open assessment of how effective the council's governance arrangements are considered to be against a code of corporate governance entitled "Delivering Good Governance in Local Government (2016)". This document is published by CIPFA/SOLACE as recognised national lead bodies for public services. The code takes into account the characteristics of good governance set out above and translates them into specific core activities.

The annual governance statement has also been produced as a separate document and can be downloaded from the following web link: https://www.iwight.com/Council/OtherServices/Financial-Management/Accounts1

# THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

**The council's responsibilities**

The council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Director of Finance and Section 151 officer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the statement of accounts.

**The Director of Finance and Section 151 officer's responsibilities**

The Director of Finance and Section 151 officer is responsible for the preparation of the council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Director of Finance and Section 151 officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- complied with the local authority code.

The Director of Finance and Section 151 officer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the statement of accounts for the year ended 31 March 2022 gives a true and fair view of the financial position of the Isle of Wight Council at the 31 March 2022 and its income and expenditure for the year then ended.

Chris Ward
Director of Finance and Section 151 officer — Date: 20 March 2022

**Approval of Accounts**

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by the Audit committee on (TBC)

Chair of Audit Committee — Dated: 20 March 2022

## EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. This analysis is a note to accounts rather than a principal statement.

| 2020-21 (Restated - see Note 52) | | | | 2021-22 | | |
|---|---|---|---|---|---|---|
| Net Expenditure Chargeable to the General Fund Balance | Adjustments between the Funding and Accounting Basis (see note 7A) | Net Expenditure in the Comprehensive Income and Expenditure Statement | **Portfolio reporting structure (Continuing services)** | **Net Expenditure Chargeable to the General Fund Balance** | **Adjustments between the Funding and Accounting Basis (see note 7A)** | **Net Expenditure in the Comprehensive Income and Expenditure Statement** |
| £000 | £000 | £000 | | **£000** | **£000** | **£000** |
| 47,481 | 1,665 | 49,146 | Adult Social Care & Public Health | **52,995** | **3,962** | **56,957** |
| 25,797 | 6,705 | 32,502 | Children's Services, Education & Lifelong Skills | **31,489** | **15,378** | **46,867** |
| 10,434 | 1,900 | 12,334 | Community Protection, Digital Transformation, Housing Provision & Housing Needs | **8,145** | **2,690** | **10,835** |
| 6,565 | 2,284 | 8,849 | Environment, Heritage & Waste Management | **6,683** | **2,831** | **9,514** |
| 14,420 | 9,796 | 24,216 | Highways PFI, Transport & Infrastructure | **13,184** | **10,366** | **23,550** |
| 814 | 92 | 906 | Leader & Strategic Partnerships | **838** | **181** | **1,019** |
| 543 | 325 | 868 | Planning & Community Engagement | **(174)** | **535** | **361** |
| (3,007) | 1,124 | (1,883) | Regeneration, Business Development & Tourism | **2,013** | **1,154** | **3,167** |
| 10,535 | 244 | 10,779 | Strategic Finance, Corporate Resources & Transformational Change | **12,347** | **1,675** | **14,022** |
| 113,582 | 24,135 | 137,717 | **Net cost of continuing services** | **127,520** | **38,772** | **166,292** |
| 6,239 | (504) | 5,735 | Fire & Rescue transferred to Hampshire & Isle of Wight Fire & Rescue Authority | **-** | **-** | **-** |
| (165,486) | 7,762 | (157,724) | Other Income and Expenditure | **(135,230)** | **(110,695)** | **(245,925)** |
| (45,665) | 31,393 | (14,272) | **(Surplus)/deficit on provision of services** | **(7,710)** | **(71,923)** | **(79,633)** |
| 69,220 | | | Opening General Fund balance | **117,372** | | |
| 2,488 | | | Add back DSG reserve deficit (see note 10) | **-** | | |
| 45,664 | | | Less/add Surplus or (deficit) on General Fund balance in year | **7,710** | | |
| 117,372 | | | **Closing General Fund Balance at 31 March** | **125,082** | | |

## COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from council tax and other revenue resources. Authorities raise income to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the expenditure and funding analysis and the movement in reserves statement.

| 2020-21 (restated - see Note 52) | | | | **2021-22** | | |
|---|---|---|---|---|---|---|
| Gross Expenditure (see note 8) | Gross Income (see note 8) | Net expenditure | **Portfolio reporting structure (Continuing operations)** | **Gross Expenditure (see note 8)** | **Gross Income (see note 8)** | **Net Expenditure** |
| £000 | £000 | £000 | | **£000** | **£000** | **£000** |
| 91,815 | (42,669) | 49,146 | Adult Social Care & Public Health | **99,429** | **(42,472)** | **56,957** |
| 130,488 | (97,986) | 32,502 | Children's Services, Education & Lifelong Skills | **147,506** | **(100,639)** | **46,867** |
| 27,022 | (14,688) | 12,334 | Community Protection, Digital Transformation, Housing Provision & Housing Needs | **18,818** | **(7,983)** | **10,835** |
| 11,224 | (2,375) | 8,849 | Environment, Heritage & Waste Management | **12,678** | **(3,164)** | **9,514** |
| 29,487 | (5,271) | 24,216 | Highways PFI, Transport & Infrastructure | **31,594** | **(8,044)** | **23,550** |
| 1,056 | (150) | 906 | Leader & Strategic Partnerships | **1,064** | **(45)** | **1,019** |
| 2,957 | (2,089) | 868 | Planning & Community Engagement | **3,427** | **(3,066)** | **361** |
| 5,586 | (7,470) | (1,884) | Regeneration, Business Development & Tourism | **6,761** | **(3,594)** | **3,167** |
| 46,141 | (35,361) | 10,780 | Strategic Finance, Corporate Resources & Transformational Change | **53,431** | **(39,409)** | **14,022** |
| 345,776 | (208,059) | 137,717 | **Net cost of continuing services** | **374,708** | **(208,416)** | **166,292** |
| 6,378 | (642) | 5,736 | Fire & Rescue transferred to Hampshire & Isle of Wight Fire & Rescue Authority | **-** | **-** | **-** |
| 9,445 | (443) | 9,002 | Other operating expenditure (note 11) | **(74,762)** | **0** | **(74,762)** |
| 33,666 | (15,388) | 18,278 | Financing & investment income & expenditure (note 12) | **33,875** | **(19,620)** | **14,255** |
| 0 | (185,005) | (185,005) | Taxation & non-specific grant income (note 13) | **0** | **(185,418)** | **(185,418)** |
| 395,265 | (409,537) | (14,272) | **Deficit/(surplus) on provision of services** | **333,821** | **(413,454)** | **(79,633)** |
| | | (23,838) | Surplus on revaluation of non-current assets (note 28) | | | **(19,291)** |
| | | 3,014 | Downward revaluation of assets and impairment losses on non-current assets charged to the revaluation reserve (note 28) | | | **14,455** |
| | | 103,315 | Actuarial (gains)/losses on pension assets/liabilities (note 28) | | | **(85,222)** |
| | | 82,491 | **Other comprehensive income & expenditure** | | | **(90,058)** |
| | | 68,219 | **Total comprehensive income & expenditure** | | | **(169,691)** |

## MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (ie those that can be used to fund expenditure or reduce local taxation) and other 'unusable reserves'. The statement shows how the movements in the year of the council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The net increase/decrease line shows the statutory general fund balance movements in the year following those adjustments.

| | General fund balance £000 | Capital receipts reserve £000 | Capital grants unapplied £000 | Total usable reserves £000 | Unusable reserves £000 | Total council reserves £000 |
|---|---|---|---|---|---|---|
| **Balance at 31 March 2020 brought forward** | 69,220 | 2,273 | 12,191 | 83,684 | (115,426) | (31,742) |
| Reporting of Schools Budget Deficit to new Adjustment Account at 1 April 2020 | 2,488 | 0 | 0 | 2,488 | (2,488) | 0 |
| **Restated balance at 1 April 2020** | 71,708 | 2,273 | 12,191 | 86,172 | (117,914) | (31,742) |
| **Movement in reserves during 2020-21:** | | | | | | |
| **Total Comprehensive Income & Expenditure** | 14,272 | 0 | 0 | 14,272 | (82,491) | (68,219) |
| **Adjustments between accounting basis & funding basis under regulations (Notes 7A & 9)** | 31,392 | 1,051 | (4,595) | 27,848 | (27,848) | 0 |
| **Increase/decrease in 2020-21** | 45,664 | 1,051 | (4,595) | 42,120 | (110,339) | (68,219) |
| **Balance at 31 March 2021 carried forward** | 117,372 | 3,324 | 7,596 | 128,292 | (228,253) | (99,961) |

| **General Fund analysed between:** | **Balance brought forward at 31 March 2020** | **Restated to unusable reserve at 1 April 2020** | **Balance after restatement at 1 April 2020** | **Movement in 2020-21 year** | **Balance carried forward at 31 March 2021** |
|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Earmarked Reserves (see note 10) | 59,479 | - | 59,479 | 44,247 | 103,726 |
| Dedicated Schools Grant (DSG) reserve deficit (see note 10) | (2,488) | 2,488 | 0 | - | - |
| Reserve for general purposes (see note 27) | 12,229 | - | 12,229 | 1,417 | 13,646 |
| **Total** | 69,220 | 2,488 | 71,708 | 45,664 | 117,372 |

| | General fund balance £000 | Capital receipts reserve £000 | Capital grants unapplied £000 | Total usable reserves £000 | Unusable reserves £000 | Total council reserves £000 |
|---|---|---|---|---|---|---|
| Balance at 1 April 2021 brought forward | 117,372 | 3,324 | 7,596 | 128,292 | (228,253) | (99,961) |
| Movement in reserves during 2021-22: | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Comprehensive Income & Expenditure | 79,632 | 0 | 0 | 79,632 | 90,058 | 169,690 |
| Adjustments between accounting basis & funding basis under regulations (Notes 7A & 9) | (71,922) | (1,387) | (1,813) | (75,122) | 75,122 | 0 |
| Increase/decrease in 2021-22 | 7,710 | (1,387) | (1,813) | 4,510 | 165,180 | 169,690 |
| Balance at 31 March 2022 carried forward | 125,082 | 1,937 | 5,783 | 132,802 | (63,073) | 69,729 |

| General Fund analysed between: | Balance brought forward at 1 April 2021 | Movement in 2021-22 year | Balance carried forward at 31 March 2022 |
|---|---|---|---|
| | £000 | £000 | £000 |
| Earmarked Reserves (see note 10) | 103,726 | 9,298 | 113,024 |
| Reserve for general purposes (see note 27) | 13,646 | (1,589) | 12,057 |
| Total | 117,372 | 7,709 | 125,084 |

## BALANCE SHEET

The balance sheet shows the value as at the balance sheet date of the assets and liabilities held by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the capital receipts reserve may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the movement in reserves statement line 'adjustments between accounting basis and funding basis under regulations.

| 31 March 2021 | | | **31 March 2022** |
|---|---|---|---|
| £000 | | **Note** | **£000** |
| 521,728 | Property, plant & equipment | **14** | **511,180** |
| 1,297 | Heritage assets | **15** | **1,297** |
| 35,050 | Investment property | **16** | **41,350** |
| 293 | Intangible assets | **17** | **339** |
| 1,104 | Long term debtors | **21** | **2,532** |
| 559,472 | **Long term assets** | | **556,698** |
| 43,535 | Short-term investments | **18** | **40,526** |
| 793 | Assets held for sale | **24** | **5,826** |
| 67 | Inventories | **20** | **64** |
| 41,062 | Short term debtors | **21** | **30,355** |
| 38,849 | Cash and cash equivalents | **23** | **21,468** |
| 124,306 | **Current assets** | | **98,239** |
| (63,166) | Short term borrowing | **18** | **(33,767)** |
| (63,841) | Short term creditors | **25** | **(64,817)** |
| (5,092) | Short term provisions | **26** | **(4,643)** |
| (132,099) | **Current liabilities** | | **(103,227)** |
| (97,360) | Long term creditors | **18** | **(92,584)** |
| (1,347) | Long term provisions | **26** | **(1,354)** |
| (180,827) | Long term borrowing | **18** | **(168,189)** |
| (360,212) | Other long term liabilities | **28** | **(203,372)** |
| (394) | Donated assets account | **15** | **(394)** |
| (11,500) | Capital grants receipts in advance | **40** | **(16,092)** |
| (651,640) | **Long term liabilities** | | **(481,985)** |
| (99,961) | **Net liabilities** | | **69,725** |
| 128,291 | Usable reserves | **27** | **132,801** |
| (228,252) | Unusable reserves | **28** | **(63,076)** |
| (99,961) | **Total reserves** | | **69,725** |

**Signed:** **Chris Ward**

**Date:** **20 March 2022**

# CASH FLOW STATEMENT

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

| 2020-21 | | **2021-22** |
|---|---|---|
| £000 | | **£000** |
| 14,272 | Net surplus/(deficit) on the provision of services | **79,632** |
| 61,629 | Adjustments to net surplus or deficit on the provision of services for non-cash movements (note 30) | **(41,187)** |
| (18,009) | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 30) | **(18,238)** |
| 57,892 | Net cash flows from operating activities | **20,207** |
| (6,084) | Investing activities (note 31) | **666** |
| (47,332) | Financing activities (note 32) | **(38,254)** |
| 4,476 | Net increase or decrease in cash & cash equivalents | **(17,381)** |
| 34,373 | Cash & cash equivalents at the beginning of the reporting period | **38,849** |
| 38,849 | **Cash & cash equivalents at the end of the reporting period (note 23)** | **21,468** |

# NOTES TO THE ACCOUNTS

## 1. Summary of significant accounting policies

### 1.1 General principles

The statement of accounts summarises the council's transactions for the 2021-22 financial year and its position at the year-end of 31 March 2022. The council is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2015 which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the statement of accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounts have been reviewed so that only statutory disclosures are included.

The accounts have been prepared on a going concern basis, under the assumption that the council will continue in existence for the foreseeable future.

Unless otherwise stated, the convention used in this document is to round amounts to the nearest thousand pounds. Credit balances are shown with parentheses.

### 1.2 Accruals of income and expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather that when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### 1.3 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature within 24 hours from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the balance sheet and cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

### 1.4 Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

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

### 1.5 Charges to revenue for non-current assets

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

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there can be no accumulated gains in the revaluation reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance.

The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing, Communities and Local Government Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2018.

The council has adopted the following principles for the charging of the Minimum Revenue Provision (MRP):

- The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- The CLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The statement incorporates options recommended in the Guidance as well as locally determined prudent methods.
- The council has adopted the annuity method for capital expenditure. This method will ensure the repayment of the debt better reflects the consumption of these assets financed. MRP will be determined by charging the expenditure over the expected useful life of the relevant asset. This being equal to the principal repayment on an annuity with an annual interest rate equal to the relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 40 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
- For finance leases and the Highways PFI contract, the MRP charge will be equal to the repayment of the liability in year.
- For investment properties with a holding period of less than 50 years; MRP will not be provided for investment properties. Upon sale of these assets the capital receipt will be set aside to repay the borrowing that has financed these assets. Where the fair value of the property falls below acquisition cost, MRP will be provided on an annuity method over the remainder of the life of asset.
- For investment properties with a holding period of greater than 50 years; MRP will be provided on an annuity method over the life of asset.
- For capital expenditure loans to third parties the income received has an interest and principal element. No MRP will be charged on these loans unless the loan is deemed to be impaired in line with IFRS 9.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the general fund balance by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

### 1.6 Accounting for Council Tax and Business Rates

Billing authorities act as agents, collecting council tax and business rates (non-domestic rates) on behalf of the major preceptors (including government for business rates) and, as principals, collecting council tax and business rates for themselves. Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of council tax and business rates. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionally the risks and rewards that the amount of council tax and business rates collected could be less or more than predicted.

The council tax and business rate income included in the comprehensive income and expenditure statement is the council's share of accrued income for the year. However, regulations determine the amount of council tax and business rates that must be included in the council's general fund. Therefore, the difference between the income included in the comprehensive income and expenditure statement and the amount required by regulation to be credited to the general fund is taken to the collection fund adjustment account and included as a reconciling item in the movement in reserves statement.

The balance sheet includes the council's share of the end of year balances in respect of council tax and business rates relating to arrears, impairment allowances for doubtful debts, overpayments, prepayment and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable amounts), the asset is written down and a charge made to the collection fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

### 1.7 Employee benefits

#### 1.7.1 Benefits payable during employment

Short-term employee benefits are those expected to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonus and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the end of the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rate applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the movement in reserves statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### 1.7.2 Termination benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service or, where applicable, to the non-distributed costs line in the comprehensive income and expenditure statement at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the council to the pension fund or the pensioner in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, appropriations are required to and from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits paid to the pension fund and pensioners and any such amounts payable but unpaid at year-end.

#### 1.7.3 Post-employment benefits

Employees of the council are members of three separate pension schemes:

- The Local Government Pension Scheme administered by the Isle of Wight Council.
- The Teachers' Pension Scheme administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The National Health Service (NHS) pension scheme

The local government, teachers' and NHS schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. These schemes are therefore accounted for as if they were defined contributions schemes and no liability for future payments of benefits is recognised in the balance sheet. The children's, education and skills service line in the comprehensive income and expenditure statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The adult social care and public health services line is charged in respect of the employers' contributions to the NHS pension scheme.

#### 1.7.4 The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

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

- Liabilities are discounted to their value at current prices, using a discount rate derived from a corporate bond yield curve constructed from yields on high quality bonds and recognising the weighted average term of the benefit obligation for the employer at the IAS19 valuation date. The corporate bond yield curve is constructed based on the constituents of the iBoxx £ Corporates AA index and using the UBS delta curve fitting methodology.
- The assets of the Isle of Wight Council Pension Fund attributed to the council are included in the balance sheet at their fair value:
    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value

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

- Service cost comprising:
    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the comprehensive income and expenditure statement to the services for which the employees worked;
    - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the resources line of the comprehensive income and expenditure statement;
    - net interest on the defined benefit liability (asset), i.e. net interest expense for the council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
    - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset). This is charged to the pensions reserve as other comprehensive income and expenditure;
    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the pensions reserve as other comprehensive income and expenditure;
    - Contributions paid to the Isle of Wight Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the general fund balance to be charged with the amount payable by the council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, this means that there are appropriations to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable to the fund but unpaid at the year-end. The negative balance on the pension reserve thereby measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

**1.7.5 Discretionary benefits**

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

### 1.8 Events after the reporting period

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events can be identified:

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

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

### 1.9 Financial instruments

#### 1.9.1 Financial liabilities

Financial liabilities are recognised on the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the council has, this means that the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the comprehensive income and expenditure statement is the amount payable for the year according to the loan agreement.

#### 1.9.2 Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The council's business model is to hold investments to collect contractual cash flow. Financial assets are therefore classified as amortised cost.

#### 1.9.3 Financial assets measured at amortised cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

#### 1.9.4 Expected credit loss model

The council recognises expected credit losses on all of its financial assets held at amortised cost either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The council has one significant loan to a renewable energy business operating locally. Lifetime expected losses are assessed based on a credit scoring matrix taking financial statements, market conditions and other relevant factors into consideration. The impairment allowance is reviewed at each year-end to take account of any changes in relevant factors.

### 1.10 Government grants and contributions

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

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

Amounts recognised as due to the council are not credited to the comprehensive income and expenditure statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income (non-ringfenced revenue grants and all capital grants) in the comprehensive income and expenditure statement.

Where capital grants are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance in the movement in reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied account. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

### 1.11 Business Improvement District

A Business Improvement District (BID) scheme applies across the whole of the council’s area. The scheme is funded by a BID levy paid by business ratepayers. The council acts as agent under the scheme and does not account for income received and expenditure incurred within the comprehensive income and expenditure statement. The council is reimbursed for the cost of collection from the BID levy.

### 1.12. Heritage assets

The council’s heritage service holds historic items in perpetuity for their contribution to knowledge and culture, facilitating enjoyment and education. Many items have been donated to the service to ensure their long term care and preservation. Others have been obtained using grant sources and have conditions governing their acquisition, care, and display.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council’s accounting policies on property, plant, and equipment. Where the council does not have information on asset value, no attempt has been made to estimate the value of heritage assets. This is due to the number and uniqueness of items retained and the associated costs and time required to undertake valuations. Where it is not practical, the measurement rules are relaxed for heritage assets detailed below. The council’s collection of heritage assets is accounted for as follows:

**Social History Collection**
The social history collection currently contains 11,500 items (or groups of items) recorded on a museum catalogue system called Modes. The council considers that obtaining valuations for this collection would involve a disproportionate cost in comparison to the benefits to the users of the council’s financial statements. Many of the items within the collection are unique or irreplaceable resulting in a lack of comparable markets: consequentially the council does not recognise the assets on the balance sheet.

Within the Social History Collection there is a collection of civic regalia (Local Government Collection) that was valued by Christies in 1993 and is deemed to be on a historic cost basis. Civic regalia within the local government collection are deemed to have indeterminate lives and a high residual value; hence the council does not consider it appropriate to charge depreciation. The use of historic cost does provide a limitation when determining the current value of these assets.

The Social History Collection also contains 400 artworks, paintings, prints and watercolours (Art Collection), The Art Collection includes 112 watercolour sketches by Thomas Rowlandson and his circle, purchased from the Longleat Estate with grant funding in 2002. These artworks were re-valued in 2019 by Christies. The assets within the art collection are deemed to have indeterminate lives and a high residual value; hence the council does not consider it appropriate to charge depreciation. Acquisitions are made by purchase or donation. Acquisitions are recognised at cost and revalued where there is sufficient evidence of market value such as insurance values. Donations are recognised at cost with reference to appropriate commercial markets for the paintings, using information from auction houses or other professional valuers.

**Archaeology Collection**
The archaeology collection comprises two major groups of material: collections on deposit or loan by various organisations, and collections largely acquired after 1981 from excavations and by other means. The collection of treasures comprises 90 items and has been valued by British Museum Treasure Committee and is deemed to be on a historic cost basis. The remaining collection currently comprises circa 48,000 items in total which are not valued as the council considers that obtaining valuations for the collection would involve a disproportionate cost in comparison to the benefits to the users of the council's financial statements. Acquisitions are made by purchase or donations. Acquisitions and donations for treasures are recognised at cost with reference to appropriate commercial markets using information from auction houses or other professional valuers.

The use of historic cost does provide a limitation when determining the current value of these assets. If the current value of these assets were available, the balance sheet values are likely to be substantially different.

**Geology**
The geology collection currently comprises approximately 30,000 geological specimens and the collection contains over 220 type, figured and cited specimens, notably the specimens of three dinosaurs, Neovenator, Eotyrannus and Yaverlandia. The council considers that obtaining valuations for the collection exhibited within the Dinosaur Isle museum and stored at the museum store would involve a disproportionate cost in comparison to the benefits to the users of the council's financial statements. The council considers that, due to the lack of any comparable market, it is not possible to provide either cost or valuation information for these assets. Consequentially the council does not recognise the assets on the balance sheet.

**Record Office collection**
This collection is held within the Isle of Wight Records Office and associated out stores. The council does have local council records and some items that have been gifted to the council, but a significant percentage of the most valuable and most used material is not in the council's ownership. The collection also includes a collection of local books. The Record Office material is not being valued on the same basis as other collections, to do so would be disproportionate for the cost and time taken. Consequentially the council does not recognise the assets on the balance sheet.

**Heritage assets - general**
The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, (e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity). Any impairment is recognised and measured in accordance with the council's general policies on impairments. The council will dispose of heritage assets in line with approved heritage service policies. The proceeds of such items are accounted for in accordance with the council's general provisions relating to the disposal of property, plant, and equipment. Disposal proceeds are disclosed separately in the notes of financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

The Isle of Wight Heritage Service maintains acquisition and disposal policies and procedures for museum collections.

**1.13. Intangible assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the current value of the assets held by the council can be determined by reference to an active market. In practice, no intangible asset held by the council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the comprehensive income and expenditure statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line in the comprehensive income and expenditure statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other operating expenditure line in the comprehensive income and expenditure statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement in reserves statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

**1.14 Inventories**

Inventories are included in the balance sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the first in first out costing formula.

**1.15 Investment property**

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

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the financing and investment income line and result in a gain for the general fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement in reserves statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

**1.16 Interests in companies and other entities**

An assessment of the council's interests has been carried out during the year in accordance with the Code of Practice to determine the group relationships that exist. Inclusion in the group is dependent upon the extent of the council's control over the entity demonstrated through ownership, such as a shareholding in an entity or representation on an entity's board of directors. The council has no material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and that would require it to prepare group accounts.

### 1.17 Joint operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the council as a joint operator recognises:

- its assets, including its share of any assets held jointly.
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

### 1.18 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. One of the key tests for classification of finance leases is that lease payments are substantially all of the current value of the asset. The council has defined substantial as being where lease payments are at least 70% of the current value of the asset. All other leases are classified as operating leases.

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

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

#### 1.18.1 The council as lessee

**Finance leases**

Property, plant and equipment held under finance leases is recognised on the balance sheet at the commencement of the lease at its current value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement).

Property, plant and equipment recognised under finance leases is accounted for by using the policies applied generally such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

The council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the general fund balance, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

**Operating leases**

Rentals paid under operating leases are charged to the comprehensive income and expenditure statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### 1.18.2 The council as lessor

**Finance leases**

The council has reviewed current lease arrangements and has concluded that currently there are no finance leases as lessor to be recognised in the accounts.

**Operating leases**

Where the council grants an operating lease over a property or item of plant or equipment, the asset is retained in the balance sheet. Rental income is credited to the other operating expenditure line in the comprehensive income and expenditure statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are charged to the comprehensive income and expenditure statement.

## 1.19 Overheads and support services

The costs of overheads and support services are charged to service segments in accordance with the council's arrangements for accountability and financial performance.

## 1.20 Property, plant and equipment

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

### 1.20.1 Recognition

Expenditure on the acquisition, creation or enhancement of property, plant or equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. A de-minimus threshold applies where expenditure meets the capital criteria, but the amount does not exceed £10,000. The council can decide to set aside this threshold, if appropriate, for such items as the purchase of land required to be identified as an asset to the council or where the item of expenditure is part of a capital project where the total amount exceeds the de-minimus.

### 1.20.2 Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

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

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the taxation and non-specific grant income line of the comprehensive income and expenditure statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the donated assets account. Where gains are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance to the capital adjustment account in the movement in reserves statement.

Assets are then carried in the balance sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- vehicles, plant and equipment - depreciated historical cost.
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- surplus assets – the current value measurement base is fair value, estimated at the highest and best use from a market participant's perspective
- shared ownership – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Assets included in the balance sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. A valuation is completed where capital expenditure exceeds £50,000 in year for land and building assets. Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains. Exceptionally, gains might be credited to the comprehensive income and expenditure statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the comprehensive income and expenditure statement.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

### 1.20.3 Impairment

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

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the comprehensive income and expenditure statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the comprehensive income and expenditure statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### 1.20.4 Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land, community assets and heritage assets) together with shared ownership properties and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Buildings – straight-line allocation over the remaining useful life of the property as estimated by the valuer. Depreciation is calculated on the opening book value as additions over £50,000 are subject to revaluation in year. Additions in year and valuations in year depreciate from the start of the subsequent financial year.

- Vehicles, plant and equipment – opening cost value and additions in year over straight line allocation as advised by a suitably qualified officer
- Infrastructure – opening cost value and additions in year over straight line allocation as advised by a suitably qualified officer

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately and this is determined at the point of valuation and is estimated by the valuer.

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

Depreciation is not charged on property, plant and equipment in the year of disposal.

**1.20.5 Disposals and non-current assets held for sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued at the point of reclassification and then carried at fair value. Where there is a subsequent decrease to fair value, the loss is posted to the other operating expenditure line in the comprehensive income and expenditure statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the surplus or deficit on provision of services. Depreciation is not charged to assets held for sale.

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

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the net book value of the asset in the balance sheet (whether property, plant, equipment or assets held for sale) is written off to the other operating expenditure line in the comprehensive income and expenditure statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the comprehensive income and expenditure statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated in the revaluation reserve are transferred to the capital adjustment account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are required to be credited to the capital receipts reserve and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the general fund balance in the movement in reserves statement.

The written-off value of disposals is not a charge to council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital adjustment account from the general fund balance in the movement in reserves statement.

**1.21 Private finance initiative (PFI) and similar contracts**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the service passes to the PFI contractor. As the council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the council at the end of the contract for no additional charge, the council carries the assets used under the contracts on the balance sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the balance sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council.

The amounts payable to the PFI operators each year (unitary charge) are analysed into six elements:-

- fair value of the services received during the year – debited to the relevant service in the comprehensive income and expenditure statement
- finance cost – an interest charge on the outstanding balance sheet liability, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement
- contingent rentals – increases in the amount to be paid for the property arising during the contract, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.
- payment towards liability – applied to write down the balance sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- payment towards the excess of capital investment over planned capital investment specified in the contract. Excess of capital investment is credited to deferred income on the balance sheet and credited to the relevant service in the comprehensive income and expenditure statement
- lifecycle replacement costs – the council charges lifecycle costs as incurred and these are recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

### 1.22 Fair value measurement of non-financial assets

The council's accounting policy for fair value measurement of financial assets is set out in note 1.9.2. The council also measures some of its non-financial assets such as surplus assets and investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

The council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the council can access at the measurable date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

The fair value for surplus properties, investment properties and assets held for sale has been based on the market approach using current market conditions, recent sales prices and other relevant information for similar assets in the council's area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to properties being categorised at level 2 in the fair value hierarchy.

### 1.23 Provisions, contingent liabilities and contingent assets

#### 1.23.1 Provisions

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

Provisions are charged as an expense to the appropriate service line in the comprehensive income and expenditure statement in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

Provisions are analysed between short and long-term for the purpose of balance sheet categorisation.

### 1.23.2 Contingent liabilities

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

Contingent liabilities are not recognised in the balance sheet but are disclosed in a note to the accounts.

### 1.23.3 Contingent assets

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

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

## 1.24 Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the general fund balance in the movement in reserves statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on the provision of services in the comprehensive income and expenditure statement. The reserve is then appropriated back into the general fund balance in the movement in reserves statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, retirement and employee benefits and which do not represent usable resources for the council. These reserves are explained in the relevant policies.

## 1.25 Revenue expenditure funded from capital under statute

Expenditure incurred during the year that may be capitalised under statutory provisions, but that does not result in the creation of a non-current asset, has been charged as expenditure to the relevant service in the comprehensive income and expenditure statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the movement in reserves statement from the general fund balance to the capital adjustment account then reverses out the amounts charged so there is no impact on the level of council tax.

## 1.26 Accounting for Schools

There are currently five types of schools within the council's area:

- Community schools
- Voluntary Controlled schools
- Voluntary Aided schools
- Foundation/Trust schools
- Academy schools

The council's expenditure on schools is funded by grant monies provided by the Department for Education through the Dedicated Schools Grant (DSG). The schools budget includes elements for a range of educational services provided on an council-wide basis and for the individual schools' budget, which is divided into a budget share for each maintained school. A deduction is made from the council's DSG by central government as a recoupment in respect of the conversion of maintained schools into academies. DSG is paid specifically to finance the schools' budget and is consequently credited to the children's services, education and skills line in the comprehensive income and expenditure statement. With the exception of academy schools therefore, school's income and expenditure, including voluntary aided and foundation schools, is recognised in the council's comprehensive income and expenditure statement.

With regard to non-current assets, the council recognises property, plant and equipment relating to voluntary controlled schools on the balance sheet as control of the school is held by the council. Property, plant and equipment in voluntary aided schools are recognised on the balance sheet where legal ownership rests with the council and this is currently limited to playing field land where relevant. Property, plant and equipment in foundation, trust and academy schools are not recognised on the balance sheet where control has been transferred to the relevant governing body.

### 1.27 VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

### 1.28 Re-classifiable transactions under IAS 1 (Presentation of Financial Statements)

The council does not have any transactions in 2021-22 that are re-classifiable to the surplus or deficit on the provision of services under the requirements of IAS 1. All of the amounts in other comprehensive income and expenditure are not re-classifiable in the surplus or deficit on the provision of services.

### 1.29 Going Concern

These accounts have been prepared on a going concern basis assuming that that the Authority will continue in operational existence for 12 months from the date the accounts are approved.

The provisions in the CIPFA/LASAAC Code of Practice of Local Authority Accounting 2021-22 and the Financial Reporting Council's Practice Note 10 in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year and indeed, correspondence from MHCLG during Covid-19 is supportive of this approach. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.

The Council set its budget for 2023-24 at its Full Council meeting on 22 February 2023 which provided for the full financial impact of the extra-ordinary inflation and associated demand related cost pressures experienced over the past year and extending into 2023-24 and the ongoing impact of the Covid Pandemic in the current year and its expected ongoing legacy over the next 3 years.

The Council has identified £3.9 million of savings in order to meet the original £2 million planned savings requirement as per the council resolution of 23 February 2022, the extra-ordinary budget pressures that have not been met through additional government funding or council tax and that the Council has been unable to mitigate of £1.6 million and the financial impact of increase to the Council's Local Council Tax Support scheme at a cost of £0.3 million.

The Council agreed a council tax increase of 4.99% (2% of which is raised specifically to be passported to Adult Social Care). The Council also agreed to provide additional funding of £7.6 million for Adult Social Care and £4.3 million to Childrens Services to ensure that the financial position of these services remains robust both in the short and medium term.

Despite the extra-ordinary costs associated with inflation and demand arising from the "Cost of Living Crisis" the Council has provided for a Medium Term Financial Strategy delivering a "Structural Budget balance" for 2023-24 without a need to draw on General Reserves. It also importantly returns to the original level of planned savings of £2 million per annum for the next three-year period from 2024-25 to 2026-27.

As described in the Going Concern Assessment last year a Covid Contingency was established to provide for additional costs and loss of income for the duration of the Covid -19 pandemic and the expected legacy impact in the medium term. The Contingency stands at £11.7 million in 2022-23 and is expected to fund pressures in relation to the legacy impact of Covid on Adult Social Care (£2.1 million) and the continuing loss of income relating to leisure (£0.9 million) and car parking (£0.2 million) making a total planned withdrawal of some £3.2 million. A further budgeted contribution of £0.5 million for 2023-24 from the previous budget strategy will result in an estimated balance at 1 April 2023 of £8.9 million. It is estimated that the Covid contingency will continue to be required to support legacy covid costs that are likely to reduce over time (i.e., are not "structural") such as Adult Social Care, for the next three financial years and leisure income for 2023-24 until a leisure review concludes the future direction for this service. This will result in an estimated balance of the contingency at year end 2023-24 of £4.2 million to fund a further two years of the estimated legacy impact on Adult Social Care at which point it is estimated that this pressure will have unwound from the system.

The minimum level of general reserves has been increased from £7 million to £8 million. Reserves in 2023-24 are estimated to be maintained at £11.9 million and gently rising to £12.3 million by 2026-27, therefore providing headroom of £3.9 - £4.3 million over this period.

The Council has also increased its revenue annual corporate contingency from £3.5 million to £4 million to provide for further increased resilience.

A Transformation Reserve with a current uncommitted balance of £3.2 million also remains in place as the Council's primary vehicle for funding Spend to Save and Spend to avoid Cost Initiatives and Feasibility Studies.

The Council has also undertaken cashflow forecasting for the foreseeable future period. Our projections for the revenue budget show that the Council has sufficient liquidity over the period to the end of March 2024, with positive cash balances throughout

The Council does have a significant capital programme for the same period and through to the end of March 2024 and there was always an intent to borrow, from the PWLB, as one of a source of funds for this programme. When taken into the cashflow forecast this situation does not change and PWLB borrowing will be required. With the impact of Covid-19 in mind we continue to focus on reviewing the timing and extent of the capital programme but are of the view that PWLB loans will be available.

Considering all of the above the Council considers it appropriate to prepare the financial statements on a going concern basis.

See Full Council Budget Report (Item 6) at the following link:
https://iow.moderngov.co.uk/ieListDocuments.aspx?CId=172&MId=1438&Ver=4

## 2. Accounting standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2022-23 (the Code) has introduced changes in accounting policies which will need to be adopted by the council in the 2022-23 financial statements. The Code requires implementation from 1 April 2022 and there is therefore no impact on the 2021-22 statement of accounts.

The Code also requires that changes in accounting policy are to be applied retrospectively unless transitional arrangements are specified, this would result in an impact on disclosures spanning two financial years.

Accounting changes that are introduced by the 2022-23 code are:

- IFRS 16 Leases (but only for those local authorities that have decided to adopt IFRS 16 in the 2022-23 year).
- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes 4 changed standards:

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

These changes are not expected to have a material impact on the Council's statements

## 3. Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 1, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the statement of accounts are:

- **Future funding of the council**.

The financial year 2022-23 was the originally intended date for the Local Government Funding Reform to coincide with the Comprehensive Spending review, however, this has been delayed once again and will now not take place until at least 2025/26. Funding reform covers the following:

- The "Fair Funding Review", (to determine a new formula methodology which will set each Local Authority's baseline funding level and creating "winners and losers")

- The Retained Business Rates system which involves the removal of all existing growth to date (amounting to £10 million) and re-distributing that growth nationally according to relative need (rather than where it was generated)

Government have confirmed that the additional £1m allocated in 2022-23 in respect of the costs of the physical separation from the mainland will continue into 2023-24 and Government have committed to further engagement over 2023-24 to inform the Local Government Finance Settlement for 2024-25.

The council's future forecast has been estimated in the context of the uncertainty of the funding reforms outlined above and for the 3 year period 2024-25 to 2026-27 it is estimated that the budget deficit will be £6 million. This requires the Council to make incremental budge savings of £2.0 million per annum for each of those years. The forecast deficit is predicated on an assumed Council Tax increase of 5% for 2023-24 and 2024-25, representing 3% for general purposes and 2% for Adult Social Care, with increases reducing to 3% per annum in total thereafter.

There are a large number of other significant variables such as elevated levels of inflation and other unavoidable cost pressures that may arise, particularly in care services and the level of successful business rate appeals arising from the revaluation in 2023-24 and taking these risks together the forecast deficit has the potential to vary by between +/£5 million which when spread over 3 years would vary the annual savings requirements by +/-£1.67 million per annum

However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of the need to close facilities and reduce levels of service provision.

- **Asset classifications**

The council has made judgements on whether assets are classified as investment property or property, plant and equipment. These judgements are based on the principal reason for the council holding the asset. If the asset is used in the delivery of services by the council or to fulfil a corporate objective then they are deemed to be property, plant and equipment assets. If assets are held solely for rental income or capital appreciation then this would indicate that the asset is an investment property. The classification determines the valuation method to be used.

- **Lease classifications**

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

- **Contractual arrangements**

The council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets). The judgement made for these concerns the amount of use considered to be significant and recognised as a lease arrangement.

- **PFI schemes**

The council has made judgements relating to the control of services provided under the Highways PFI contract. It has determined that the council controls these services and also to control the residual value of the assets at the end of the contracts. The accounting policies for PFI schemes and similar contracts have been applied to the arrangements and the assets are recognised as property, plant and equipment on the council's balance sheet in line with IFRIC 12 (service concession arrangements). The waste management contract which commenced in November 2015 has been judged as falling outside the definition of a service concession and so has not been accounted for under the accounting policy applying to PFI schemes and similar contracts.

- **School Land and Buildings**

The council has made judgements on whether the control of school land and buildings not owned by the council remain as property, plant and equipment. The council has decided that voluntary controlled schools will remain as property, plant and equipment as control of a school is held by the council. Voluntary aided schools will be recognised as property, plant and equipment where legal ownership rests with the council and currently this is limited to playing field land where relevant. Foundation, Trust and Academy schools are not recognised as property, plant and equipment where control has been transferred to the relevant governing body.

- **Minimum Revenue Provision (MRP)**

The council has made judgements on the application of a 'prudent amount' definition in the setting aside of sums for the repayment of debt (MRP). The council has judged that the accounting policy for charging the MRP can be interpreted so that the calculation considers all of the assets of the council in totality and considers them in the context of the maturity profile of the council's debt. As a result, the annuity method has been adopted as the most appropriate method for the setting aside of its MRP.

- **Investment properties**

Investment properties have been assessed using the identifiable criteria under the international accounting standards and are being held for rental income or for capital appreciation. Properties have been assessed using these criteria, which is subject to interpretation to determine if there is an operational reason for holding the property such as regeneration.

## 4. Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| Property, plant and equipment | Assets are depreciated over useful lives that are dependent on assumptions about level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to | If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.175 million for every year that useful lives had to be reduced. |

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| | assets. The carrying value of property, plant and equipment at 31 March 2022 is £511.180 million. | |
| Local Government Pension Scheme – Pensions Liability | The estimation of the net liability to pay retirement benefits depends on a number of complex judgements. In particular these judgements relate to the discount rate used, the rate at which salaries are projected to increase, changes to the age at which retirement benefits can be taken, mortality rates and the expected returns on pension fund assets. The council engages an actuary to provide expert advice about the assumptions to be applied and the sensitivity of the results. The carrying value of the Local Government Pension Scheme at 31 March 2022 is a deficit of £203.372 million. | The impact on the net pensions liability of changes in individual assumptions can be measured in approximate terms. For example, a 1% decrease in the real discount rate would result in an increase of 2% to the employer liability for which the approximate monetary value would be £15.604 million. A one year increase in member life expectancy would result in an increase 4% to the employer's defined benefit obligation. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (ie if the improvements to survival rates predominantly apply at younger of older ages). A 1% increase in the salary increase rate would result in an increase of 0% to the employer liability for which the approximate monetary value would be £1.207 million. A 1% increase in the pension increase rate would result in an increase of 2% to the employer liability for which the approximate monetary value would be £14.280 million. |
| Allowance for impairment of short-term debtors | The council has made impairment allowances of £12.011 million for the non-collection of outstanding debts at 31 March 2022. This includes an allowance of £7.500 million for council tax and business rate arrears representing the council's share of the allowance. The allowance for all other debt (including housing benefit overpayments) is calculated on a sliding scale of percentages applied to the outstanding amounts based on an age profile, historical levels and the nature of the debts. In the current economic climate it is not certain whether these allowances will be sufficient. If collection rates were to deteriorate then an increase in the amount of the impairment allowance would be required. | For collection fund arrears, variances between estimated and actual write-offs will have an impact on the surplus or deficit on the collection fund. For the remaining sundry debts (including housing benefit overpayments), a 2.5% increase in the percentage applied would require an adjustment to the allowance of £0.113 million which would be attributable to the general fund. |
| Insurance provision | The services of a claims handling company is used to process claims made against the council. As significant claims can often take many years to be settled, outcomes cannot always be predicted with any great level of certainty. A provision for outstanding insurance liabilities at 31 March 2022 has been based on information contained within the council's in-house claims recording database and also an estimate of the amount liable to 'clawback' in respect of claims against policies taken out with the Municipal Mutual Insurance (MMI) prior to 1 April 1993. MMI went into 'run-off' in September 1992 and subsequently established a scheme of arrangement whereby claims paid since January 1994 will be subject to a total or partial 'clawback' in the event of insolvency. In November 2012, the directors of MMI triggered the company's scheme of | The insurance provision is being maintained at a level considered to be prudent in view of the information currently available. The impact of a significant claim paid from the provision would require a reassessment of the adequacy of the Provision and additional contributions may need to be made from the general fund if the provision was found to be insufficient to absorb such a claim. With regard to the MMI scheme, in future only 75% of claim amounts will be paid out and so the 25% shortfall will need to be self-funded by the council. In addition, it is possible that there will be further costs resulting from 'incurred but not reported' claims, although it is not possible to quantify the potential amounts.<br>The potential liability relating to the MMI solvency position is based on a current assessment of the impact of industrial disease type claims. Should the solvency position deteriorate further, the council could face further calls on the amount in |

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| | arrangement following a Supreme Court judgement in March 2012 relating to mesothelioma claims. Under this scheme, Ernst & Young have taken over management of MMI's business, with the power to levy on scheme creditors in order to achieve a solvent run-off. | the provision. |
| Accumulated absences account | An accrual in respect of non-schools staff annual leave entitlement carried forward at 31 March 2022 has been based on 100% of staff. The accrual in respect of schools staff is calculated by using a formula which is based on the school holiday year. Differences between years can arise as a result of the dates of the Easter holidays. The carrying value at 31 March 2022 is £3.219 million. | Both current assets and unusable reserves on the balance sheet would be under or over stated if the estimate was proved not to be robust. The net worth on the balance sheet would therefore be under or over stated. The comprehensive income & expenditure statement is charged or credited with the movement between the prior and current year balance sheet figures. However, the entries in the comprehensive income & expenditure statement are reversed out through the movement in reserves statement, so that there is no impact on the general fund balance. |
| Business rate appeals | Since the introduction of the business rates retention scheme on 1 April 2013, local authorities are required to make a provision for refunding ratepayers who will successfully appeal against the rateable value of their properties on the rating list. This will include amounts relating to business rates prior to 1 April 2013. A list of outstanding appeals on the 2010 valuation list has been provided by the valuation office (VAO) and the services of rating experts have been engaged to determine potential success rates and a range of possible outcomes by analysing historical data. This information has been used to estimate the likely rateable value reductions on successful appeals and the level of backdating applicable. For the 2017 valuation list, the services of the rating experts have also been engaged to assess the potential liability that takes account of appeals lodged, settled and also of appeals yet to be submitted. The total amount recognised as a provision in the council's balance sheet (£3.99 million) is therefore the council's share (50%) of the estimate at the balance sheet date of the expenditure required to settle the potential obligation from appeals up to 31 March 2022 on both the 2010 and 2017 valuation lists. | The collection fund statement shows how the appeals provision impacts on the business rate deficit at 31 March 2022. The council's share of all business rate balances for 2021-22 is 50%. The provision has been recognised as a short-term liability as there is insufficient information to enable the estimation of the level of appeals likely to be awaiting settlement at 31 March 2022. If the outcome of appeals is different than the amount estimated, then this will have an impact in a future year on both the business rates surplus or deficit in the collection fund and the business rates income receivable by the council. |
| Highways PFI contract | PFI and similar arrangements have been considered to have an implied finance lease within the agreement. In assessing the lease applicable to the Highways PFI scheme, the council has estimated the implied interest rate within the leases to calculate the interest and principal payments. In addition, the future RPI increases within the contract have been estimated as remaining constant throughout the period of the contract. The inflation rate used in the calculation is based on RPIx and is 1.58% for year 9 of the contract (2021-22) and estimated as being 2.5% per year for the | The impact of a 0.01% variation in the assumed interest rates used in calculating future service charges and lifecycle replacement costs would result in an increase or reduction of £0.224 million to the total cost of the scheme over the remaining life of the contract. |

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| | remainder of the contract. | |
| Investment Property | The Council's valuers use valuation techniques to determine the fair value of investment property. This involves developing estimates and assumptions consistent with how market participants would price the property. The valuers base their assumptions on observable data as far as possible, but this is not always available. In that case, the valuers use the best information available and their own judgement. | Estimated fair values may differ from the actual prices that could be achieved in an arm's length transaction at the reporting date.<br><br>If the value of the Council's investment properties were to reduce by 10% this would lead to a reduction in value of £37.215 million. |

**Land, buildings material valuation uncertainty**

The outbreak of COVID-19 declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has and continues to impact many aspects of daily like and the global economy - with some real estate markets having experienced lower levels of transactional activity and liquidity.

The valuer has stated that the pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets. Nevertheless, as at the valuation date property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, the valuations are therefore no longer subject to "material valuation uncertainty" as defined by VPS 3 and VPGA 10 of the RICS Valuation - Global Standards effective from 31 January 2020.

This note is being included to ensure transparency around the market context in which the valuation opinion was prepared.

**Investment Property Market Conditions: Novel Coronavirus (COVID-19)**

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets have started to function again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, the valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

## 5. Material items of income and expense

### 5.1. Disposal or derecognition losses

During 2021-22, the council has recognised a net loss of £13.179 million in relation to the disposal or derecognition of property, plant and equipment. This has been charged to the other operating expenditure line in the comprehensive income and expenditure statement and then reversed through the movement in reserves statement. There is therefore no impact on the amount to be raised through the council tax. The carrying value of property, plant and equipment in the balance sheet has been reduced by £13.179 million as a result of disposals or derecognition. The principal loss (£12.875 million) relates to the transfer of assets to Hampshire and Isle of Wight Fire Service.

### 5.2 Pension assets/liabilities

The actuarial valuation of the Council's pension scheme liabilities shown on the Balance Sheet has reduced from £360.212 million at 31 March 2021 to £203.412 million at 31 March 2022.

This is principally due to the transfer of the Firefighters' pension scheme to Hampshire and Isle of Wight Fire Service (£93.126 million).

The individual factors which contribute to this increase in liability are credited or charged to the comprehensive income and expenditure statement and then reversed through the movement in reserves statement with the result that there is no impact on the amount to be raised through local taxation.

The notes to the Pension Reserve in note 28 and note 48 defined benefit pensions schemes give further details of the impact on the council's finances.

### 5.3 Isle of Wight Fire & Rescue Service

With effect from 1st April 2021, the Isle of Wight Council Fire and Rescue Service was combined with the Hampshire Fire and Rescue Service to form the new Hampshire and Isle of Wight Fire Service. All income, expenditure, assets and liabilities from 1st April 2021 relating to the former Isle of Wight Fire and Rescue Service will be included within the new combined service's financial statements. Property, Plant and Equipment with a net book value of £12.875 million will be transferred to the new combined service on 1st April 2021. This reduction in asset values will be offset by corresponding entries in the Revaluation Reserve and Capital Adjustment Account in the balance sheet.

## 6. Events after the reporting period

The statement of accounts was authorised for issue by the Director of Finance and Section 151 officer on 29 July 2022. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no non-adjusting events after the Balance Sheet date.

## 7A. Note to the Expenditure and Funding Analysis

**Adjustments between Funding and Accounting Basis 2020-21 (restated – see note 52)**

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts (Continuing services) | Adjustments for Capital Purposes (Note 7A.1) £000s | Net change for Pension Adjustments (Note 7A.2) £000s | Other Differences (Note 7A.3) £000s | Total Adjustments £000s |
|---|---|---|---|---|
| Adult Social Care & Public Health | 320 | 1,260 | 85 | 1,665 |
| Children's Services, Education & Lifelong Skills | 3,965 | 2,916 | (176) | 6,705 |
| Community Protection, Digital Transformation, Housing Provision & Housing Needs | 1,364 | 504 | 32 | 1,900 |
| Environment, Heritage & Waste Management | 2,050 | 218 | 16 | 2,284 |
| Highways PFI, Transport & Infrastructure | 9,609 | 175 | 12 | 9,796 |
| Leader & Strategic Partnerships | 2 | 84 | 6 | 92 |
| Planning & Community Engagement | 190 | 126 | 9 | 325 |
| Regeneration, Business Development & Tourism | 887 | 223 | 14 | 1,124 |
| Strategic Finance, Corporate Resources & Transformational Change | 689 | (500) | 55 | 244 |
| **Net Cost of Continuing Services** | 19,076 | 5,006 | 53 | 24,135 |

| | | | | |
|---|---|---|---|---|
| Fire & Rescue transferring to Hampshire & Isle of Wight Fire & Rescue Authority | 661 | (1,165) | 0 | (504) |
| Other income and expenditure from the Expenditure and Funding Analysis | (14,107) | 5,333 | 16,535 | 7,761 |
| **Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services** | 5,630 | 9,174 | 16,588 | 31,392 |

**Adjustments between Funding and Accounting Basis 2021-22**

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts | Adjustments for Capital Purposes (Note 7A.1) £000s | Net change for Pension Adjustments (Note 7A.2) £000s | Other Differences (Note 7A.3) £000s | Total Adjustments £000s |
|---|---|---|---|---|
| Adult Social Care & Public Health | **304** | **3,668** | **(10)** | **3,962** |
| Children's Services, Education & Lifelong Skills | **7,505** | **7,642** | **231** | **15,378** |
| Community Protection, Digital Transformation, Housing Provision & Housing Needs | **1,331** | **1,363** | **(4)** | **2,690** |
| Environment, Heritage & Waste Management | **2,207** | **625** | **(1)** | **2,831** |
| Highways PFI, Transport & Infrastructure | **9,831** | **536** | **(1)** | **10,366** |
| Leader & Strategic Partnerships | **2** | **180** | **(1)** | **181** |
| Planning & Community Engagement | **190** | **346** | **(1)** | **535** |
| Regeneration, Business Development & Tourism | **536** | **620** | **(2)** | **1,154** |
| Strategic Finance, Corporate Resources & Transformational Change | **608** | **1,072** | **(5)** | **1,675** |
| **Net Cost of Services** | **22,514** | **16,052** | **206** | **38,772** |
| Other income and expenditure from the Expenditure and Funding Analysis | **(16,807)** | **(87,629)** | **(6,259)** | **(110,695)** |
| **Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services** | **5,707** | **(71,577)** | **(6,053)** | **(71,923)** |

**Note 7A.1: Adjustments for Capital Purposes**

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing ie minimum revenue provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and non-specific grant income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

**Note 7A.2: Net Change for the Pension Adjustments**

This represents the net change for the removal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the council as allowed by statute and the replacement with current service costs and past service costs.
- For **Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the comprehensive income and expenditure statement.

**Note 7A.3: Other Differences**

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- The charge under **taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and business rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the collection fund.

**7B. Segmental Income**

External income (excluding government grants) received on a segmental basis is analysed below:

| **Portfolio reporting structure (Continuing services)** | 2020-21 (Restated – see note 52) Income from Services £000s | **2021-22 Income from Services £000s** |
|---|---|---|
| Adult Social Care & Public Health | (19,317) | **(21,692)** |
| Children's Services, Education & Lifelong Skills | (3,694) | **(5,188)** |
| Community Protection, Digital Transformation, Housing Provision & Housing Needs | (3,697) | **(4,046)** |
| Environment, Heritage & Waste Management | (2,365) | **(3,139)** |
| Highways PFI, Transport & Infrastructure | (5,261) | **(7,773)** |
| Leader & Strategic Partnerships | (17) | **(1)** |
| Planning & Community Engagement | (1,487) | **(2,375)** |
| Regeneration, Business Development & Tourism | (7,390) | **(3,249)** |
| Strategic Finance, Corporate Resources & Transformational Change | (4,639) | **(3,448)** |
| **Total income from continuing services** | (47,867) | **(50,911)** |
| Fire & Rescue transferred to Hampshire & Isle of Wight Fire & Rescue Authority | (162) | **-** |

| | | |
|---|---|---|
| **Total income analysed on a segmental basis** | (48,029) | **(50,911)** |

## 8. Expenditure and Income analysed by nature

The council's expenditure and income is analysed as below and shows the accounting expenditure and income in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from council tax and other revenue resources.

| Expenditure /Income | 2020-21 £000s | **2021-22 £000s** |
|---|---|---|
| **Expenditure** | | |
| Employee benefit expenses | 133,378 | **146,262** |
| Other services expenses | 199,500 | **112,283** |
| Depreciation, amortisation, impairment | 19,276 | **22,462** |
| Financing and investment expenditure | 33,666 | **33,876** |
| Precepts and levies | 5,050 | **5,184** |
| Gain or loss on the disposal of assets | 4,395 | **13,179** |
| Firefighters' pension scheme – top-up grant from Government | 0 | **575** |
| **Total expenditure** | 395,265 | **333,821** |
| **Income** | | |
| Fees, charges and other service income (see note 7B) | (48,029) | **(50,911)** |
| Financing and investment income | (15,389) | **(19,620)** |
| Income from council tax and business rates | (100,089) | **(109,256)** |
| Government grants and contributions | (246,030) | **(233,092)** |
| Firefighters' pension scheme – top-up grant from Government | 0 | **(575)** |
| **Total income** | (409,537) | **(413,454)** |
| **Deficit/(surplus) on the provision of services** | (14,272) | **(79,633)** |

## 9. Adjustments between accounting basis and funding basis under regulations

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

| **2021-22 Adjustments** | **General fund balance £000** | **Capital receipts reserve £000** | **Capital grants unapplied £000** | **Movement in unusable reserves £000** |
|---|---|---|---|---|
| **Adjustments primarily involving the capital adjustment account**: | | | | |
| **Reversal of items debited or credited to the comprehensive income & expenditure statement:** | | | | |
| Charges for depreciation and impairment of non-current assets and current assets held for sale | **(17,996)** | **-** | **-** | **(17,996)** |
| Revaluation losses/gains on Property, Plant & Equipment | **(4,235)** | **-** | **-** | **(4,235)** |
| Movements in the market value of investment properties | **6,300** | **-** | **-** | **6,300** |

| 2021-22 Adjustments | General fund balance £000 | Capital receipts reserve £000 | Capital grants unapplied £000 | Movement in unusable reserves £000 |
|---|---|---|---|---|
| Amortisation of intangible assets | **(232)** | **-** | **-** | **(232)** |
| Capital grants and contributions applied | **15,198** | **-** | **-** | **15,198** |
| Revenue expenditure funded from capital under statute | **(2,028)** | **-** | **-** | **(2,028)** |
| Capitalised interest | **11** | **-** | **-** | **11** |
| Amounts of non-current assets and current assets held for sale written off on disposal or sale as part of the gain/loss on disposal to the comprehensive income & expenditure statement | **(304)** | **(418)** | - | **(722)** |
| Transfer of fire assets | **(12,875)** | **-** | - | **(12,875)** |
| **Insertion of items not debited or credited to the comprehensive income & expenditure statement:** | | | | |
| Provision for the financing of capital investment (minimum revenue provision - MRP) | **5,171** | **-** | **-** | **5,171** |
| Capital expenditure charged against the General fund | **2,261** | **-** | **-** | **2,261** |
| **Adjustments primarily involving the capital grants unapplied account**: | | | | |
| Capital grants and contributions unapplied credited to the comprehensive income & expenditure statement | **3,020** | - | **(3,020)** | **0** |
| Application of grants to capital financing transferred to the capital adjustment account | - | - | **4,833** | **4,833** |
| **Adjustments primarily involving the capital receipts reserve** | | | | |
| Capital loans repaid | **-** | **(82)** | **-** | **(82)** |
| Use of the capital receipts reserves to finance new capital expenditure | **-** | **1,805** | **-** | **1,805** |
| Use of Capital Receipts Reserve for repayment of debt | **-** | **82** | **-** | **82** |
| **Adjustments primarily involving the pensions reserve**: | | | | |
| Reversal of items relating to retirement benefits debited or credited to the comprehensive income & expenditure statement (see Note 28) | **(36,424)** | **-** | **-** | **(36,424)** |
| Employers' pension contributions and direct payments to pensioners in the year | **14,914** | **-** | **-** | **14,914** |
| Capitalised pension costs | **(40)** | **-** | **-** | **(40)** |
| Firefighters' pension scheme – movement on top-up grant repayable (to)/from Government | **(574)** | **-** | **-** | **(574)** |
| Firefighters' pension scheme - transfer to Hampshire & IOW Fire Service | **93,700** | **-** | **-** | **93,700** |
| **Adjustments primarily involving the collection fund adjustment account:** | | | | |
| Amount by which council tax income credited to the comprehensive income & expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements | **1,784** | **-** | **-** | **1,784** |
| Amount by which non-domestic rate income credited to the comprehensive income & expenditure statement is different from non-domestic rate income calculated for the year in accordance with statutory requirements | **6,521** | **-** | **-** | **6,521** |

| **2021-22 Adjustments** | **General fund balance £000** | **Capital receipts reserve £000** | **Capital grants unapplied £000** | **Movement in unusable reserves £000** |
|---|---|---|---|---|
| **Adjustments primarily involving the accumulated absences account:** | | | | |
| Amount by which officer remuneration charged to the comprehensive income & expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | **(204)** | **-** | **-** | **(204)** |
| **Adjustment primarily involving the Dedicated Schools Grant Adjustment** | | | | |
| Dedicated Schools Grant in-year deficit | **(2,046)** | **-** | - | **(2,046)** |
| **Total adjustments** | **71,922** | **1,387** | **1,813** | **75,122** |

| 2020-21 Adjustments (comparative year) | General fund balance £000 | Capital receipts reserve £000 | Capital grants unapplied £000 | Movement in unusable reserves £000 |
|---|---|---|---|---|
| Adjustments primarily involving the capital adjustment account: | | | | |
| Reversal of items debited or credited to the comprehensive income & expenditure statement: | | | | |
| Charges for depreciation and impairment of non-current assets and current assets held for sale | (18,262) | - | - | 18,262 |
| Revaluation losses/gains on Property, Plant & Equipment | (676) | - | - | 676 |
| Movements in the market value of investment properties | 1,955 | - | - | (1,955) |
| Amortisation of intangible assets | (338) | - | - | 338 |
| Capital grants and contributions applied | 14,530 | - | - | (14,530) |
| Revenue expenditure funded from capital under statute | (4,220) | - | - | 4,220 |
| Capitalised interest | 11 | - | - | (11) |
| Amounts of non-current assets and current assets held for sale written off on disposal or sale as part of the gain/loss on disposal to the comprehensive income & expenditure statement | (4,395) | (1,820) | - | 6,215 |
| Insertion of items not debited or credited to the comprehensive income & expenditure statement: | | | | |
| Provision for the financing of capital investment (minimum revenue provision - MRP) | 0 | - | - | 0 |
| Capital expenditure charged against the General fund | 4,105 | - | - | (4,105) |
| Adjustments primarily involving the capital grants unapplied account: | | | | |
| Capital grants and contributions unapplied credited to the comprehensive income & expenditure statement | 1,659 | - | (1,659) | - |
| Application of grants to capital financing transferred to the capital adjustment account | - | - | 6,254 | (6,254) |

| 2020-21 Adjustments (comparative year) | General fund balance £000 | Capital receipts reserve £000 | Capital grants unapplied £000 | Movement in unusable reserves £000 |
|---|---|---|---|---|
| Adjustments primarily involving the capital receipts reserve | | | | |
| Capital loans repaid | - | (1,782) | - | 1,782 |
| Use of the capital receipts reserves to finance new capital expenditure | - | 2,470 | - | (2,470) |
| Use of Capital Receipts Reserve for repayment of debt | - | 81 | - | (81) |
| Adjustments primarily involving the pensions reserve: | | | | |
| Reversal of items relating to retirement benefits debited or credited to the comprehensive income & expenditure | (26,266) | - | - | 26,266 |
| Employers' pension contributions and direct payments to pensioners in the year | 16,620 | - | - | (16,620) |
| Capitalised pension costs | 29 | - | - | (29) |
| Firefighters' pension scheme – movement on top-up grant repayable (to)/from Government | 443 | - | - | (443) |
| Adjustments primarily involving the collection fund adjustment account: | | | | |
| Amount by which council tax income credited to the comprehensive income & expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements | (1,641) | - | - | 1,641 |
| Amount by which non-domestic rate income credited to the comprehensive income & expenditure statement is different from non-domestic rate income calculated for the year in accordance with statutory requirements | (13,083) | - | - | 13,083 |
| Adjustments primarily involving the accumulated absences account: | | | | |
| Amount by which officer remuneration charged to the comprehensive income & expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (52) | - | - | 52 |
| Adjustment primarily involving the Dedicated Schools Grant Adjustment | | | | |
| Dedicated Schools Grant in-year deficit | (1,811) | - | - | 1,811 |
| Total adjustments | (31,392) | (1,051) | 4,595 | 27,848 |

## 10. Transfers to/from earmarked reserves

This note sets out the amounts set aside from the general fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts transferred from earmarked reserves to meet general fund expenditure in 2022-23.

| General Fund: | Balance at 1 April 2020 £000 | Transfer out 2020/21 £000 | Transfer in 2020/21 £000 | Balance at 1 April 2021 £000 | Transfer out 2021/22 £000 | Transfer in 2021/22 £000 | Balance at 31 March 2022 £000 |
|---|---|---|---|---|---|---|---|
| Revenue carry-forward reserve | **5,878** | (5,878) | 9,912 | **9,912** | (9,912) | 17,769 | **17,769** |
| Balances held by schools under scheme of delegation | **(280)** | 0 | 2,274 | **1,994** | (321) | 459 | **2,132** |
| Repairs & renewal funds | **1,561** | (25) | 507 | **2,043** | (117) | 22 | **1,948** |
| Earmarked reserves – services | **18,567** | (7,345) | 37,919 | **49,141** | (29,279) | 20,788 | **40,650** |
| Insurance & risk funds | **5,943** | (51) | 415 | **6,307** | (255) | 5 | **6,057** |
| Capital resources reserve | **17,820** | (6,829) | 11,140 | **22,131** | (6,475) | 12,873 | **28,529** |
| Transformation reserve | **4,381** | (989) | 1,000 | **4,392** | (592) | 1,351 | **5,151** |
| Highways PFI contract cashflow reserve | **3,196** | (221) | 1,989 | **4,964** | (131) | 1,902 | **6,735** |
| Section 106 contributions reserve | **1,820** | (25) | 127 | **1,922** | (77) | 704 | **2,549** |
| Public Health earmarked reserve | **593** | (112) | 439 | **920** | (344) | 928 | **1,504** |
| **Totals at 31 March 2021** | **59,479** | **(21,475)** | **65,722** | **103,726** | **(47,503)** | **56,801** | **113,024** |
| DSG reserve restated as an unusable reserve from 1 April 2020 | **(2,488)** | 0 | (1,811) | **(4,299)** | 0 | (2,046) | **(6,344)** |
| **Totals post DSG restatement** | **56,991** | **(21,475)** | **63,911** | **99,427** | **(47,503)** | **54,757** | **106,682** |

The revenue carry-forward reserve provides the finance for slipped expenditure to be carried forward into the next financial year.

School balances represent cumulative underspends set aside by delegated budget holders under schemes for financing schools. The law requires that these underspends are carried forward for future use by the school concerned.

The repairs and renewals fund provides a contingency to meet significant items of unforeseen expenditure relating to equipment renewal.

The council maintains a number of earmarked reserves for specific purposes at levels required to meet known future or potential commitments. The balance at 31 March 2022 includes:

Insurance and risk funds provide the means to take categories of insurance risk in-house in the future and to meet various contingencies. These funds also recognise that the council faces a number of non-insurable risks that fall outside the scope of normal insurance cover including litigation, contract disputes and natural disasters. Rather than provide for these individually, with subsequent volatility within the revenue budget, the non-insurable risk element within these reserves currently provides for these potential liabilities.

The Capital resources reserve has been accumulated from revenue contributions to be used as a source of finance for future capital expenditure

The Transformation reserve is the council's primary vehicle for funding initiatives such as spend to save, spend to avoid and feasibility studies.

The Highways PFI contract cashflow reserve results from an excess of funding over the unitary charge during the early years of the contract period. This excess has been earmarked in a specific reserve and the sums invested to provide funding for costs in the years of the contract when the costs will exceed the funding in line with the agreed scheme profile.

The Section 106 contributions are held as reserves where there are no conditions requiring repayment in the event of stipulations not being met. Section 106 contributions are also held as creditors where such conditions exist.

The Public Health earmarked reserve has been created from underspent Public Health budgets in previous years and provides funding for on-going projects.

**DSG reserve restatement**
The Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2020, SI 2020 No 1212 requires that where a local authority has a deficit in respect of its schools budget for the financial year beginning on 1st April 2020, the deficit must be shown as an unusable reserve, rather than a deficit earmarked reserve. The carry forward deficit balances at 31 March 2022 is therefore classified as unusable reserves and included in note 28.

## 11. Other operating expenditure

| 2020-21 £000 | | **2021-22 £000** |
|---|---|---|
| 4,894 | Parish & Town Council precepts | **5,028** |
| 156 | Levies | **157** |
| (443) | Fire-fighters' Pension Scheme – movement in top-up grant repayable to/(from) Government | **574** |
| 4,395 | (Gains)/losses on the disposal of non-current assets and current assets held for sale | **304** |
| 0 | Fire-fighters Pension Scheme - transfer to Hampshire Fire | **(93,700)** |
| 0 | Loss on transfer of assets to Hampshire Fire | **12,875** |
| 9,002 | **Total** | **(74,762)** |

A levy of £0.113 million (£0.113 million in 2020-21) was paid to the Southern Inshore Fisheries and Conservation Authority and £0.044 million (£0.043 million in 2020-21) was paid as a flood defence levy to the Environment Agency.

## 12. Financing and investment income & expenditure

| 2020-21 £000 | | **2021-22 £000** |
|---|---|---|
| 15,627 | Interest payable and similar charges | **15,119** |
| 5,776 | Net interest on the net defined benefit liability | **5,497** |
| (330) | Interest receivable and similar income | **(106)** |
| (2,858) | Income and expenditure in relation to investment properties and changes in their fair value | **(7,108)** |
| 63 | Impairment of financial instruments | **853** |
| 18,278 | **Total** | **14,255** |

## 13. Taxation and non-specific grant incomes

| 2020-21 £000 | | 2021-22 £000 | |
|---|---|---|---|
| 93,016 | Council tax income (notes CF2 to CF4 to the collection fund) | **95,262** | |
| 7,073 | Business rates income (note CF5a to the collection fund) | **13,994** | |
| 100,089 | Total income from local taxation | | **109,256** |
| 72,485 | Non-ringfenced government grants | **59,920** | |
| 12,431 | Capital grants & contributions | **16,242** | |
| 84,916 | Total grant income (see note 40) | | **76,162** |
| 185,005 | **Total** | | **185,418** |

## 14. Property, plant & equipment

| **Movements on balances in 2021-22** | **Shared ownership £000** | **Other land & buildings £000** | **Vehicles, plant, furniture & equipment £000** | **Infrastructure assets * £000** | **Community assets £000** | **Surplus assets £000** | **Assets under construction £000** | **Total property, plant & equipment £000** | **PFI assets included in property, plant & equipment £000** |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | | | |
| At 1 April 2021 | **3,989** | **267,238** | **55,908** | **0** | **536** | **11,498** | **76,807** | **415,976** | **192,624** |
| Additions | **0** | **6,497** | **640** | **0** | **0** | **0** | **12,096** | **19,233** | **2,506** |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | **0** | **550** | **0** | **0** | **(1)** | **448** | **0** | **997** | **0** |
| Revaluation increases/ (decreases) recognised in the Surplus/deficit on the Provision of Services | **0** | **(4,277)** | **0** | **0** | **0** | **43** | **0** | **(4,234)** | **0** |
| Derecognition | **0** | **(10,846)** | **(11,489)** | **0** | **0** | **0** | **0** | **(22,335)** | **(611)** |
| Assets reclassified (to)/from held for sale | **0** | **(424)** | **0** | **0** | **0** | **(5,048)** | **(121)** | **(5,593)** | **0** |
| Other movements | **0** | **8** | **0** | **0** | **0** | **0** | **0** | **8** | **0** |
| Reclassification | **0** | **28,243** | **1,663** | **0** | **0** | **822** | **(37,585)** | **(6,857)** | **0** |
| **At 31 March 2022** | **3,989** | **286,989** | **46,722** | **0** | **535** | **7,763** | **51,197** | **397,195** | **194,519** |

| **Accumulated depreciation & impairment 2021-22** | **Shared ownership £000** | **Other land & buildings £000** | **Vehicles, plant, furniture & equipment £000** | **Infrastructure assets * £000** | **Community assets £000** | **Surplus assets £000** | **Assets under construction £000** | **Total property, plant & equipment £000** | **PFI assets included in property, plant & equipment £000** |
|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2021 | **0** | **(5,131)** | **(33,034)** | **0** | **(494)** | **(22)** | **0** | **(38,861)** | **(66,753)** |
| Depreciation charge | **0** | **(5,567)** | **(3,086)** | **0** | **0** | **(7)** | **0** | **(8,660)** | **(9,455)** |
| Depreciation written out to the revaluation reserve | **0** | **3,862** | **0** | **0** | **0** | **0** | **0** | **3,862** | **0** |
| Depreciation written out to the Surplus/deficit on the provision of services | **0** | **718** | **0** | **0** | **0** | **0** | **0** | **718** | **0** |
| Derecognition | **0** | **285** | **9,158** | **0** | **0** | **0** | **0** | **9,443** | **471** |
| Assets reclassified (to)/from held for sale | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Reclassification | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **At 31 March 2022** | **0** | **(5,833)** | **(26,962)** | **0** | **(494)** | **(29)** | **0** | **(33,318)** | **(75,737)** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Net book value at 31 March 2022** | **3,989** | **281,156** | **19,760** | **0** | **41** | **7,734** | **51,197** | **363,877** | **118,782** |
| Net book value at 31 March 2021 | 3,989 | 262,107 | 22,874 | 0 | 42 | 11,476 | 76,807 | 377,295 | 125,871 |

* Note 1 - Infrastructure assets
Infrastructure assets have been removed from Note 14 Property, Plant & Equipment in line with CIPFA's guidance (CIPFA Bulletin 12 Accounting for Infrastructure Assets - Temporary Solution). This bulletin adopts CIPFA's Code and recommends that the gross and accumulated depreciation split is not appropriate for infrastructure assets based on the assumption that the carrying amount of a replaced or restored infrastructure asset is derecognised at a zero amount where expenditure has occurred to renew or replace any part of an infrastructure asset. Therefore, a separate movement on infrastructure assets has been included beneath the 2021/22 note, along with a reconciliation with the entries in the balance sheet.

The Council has determined in Accordance with Regulation 30M of the Local Authorities (Capital Finance & Accounting (England) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

| **Infrastructure Assets - In Year Movement** | **2020/21 £000** | **2021/22 £000** |
|---|---|---|
| **Net Book Value (Modified Historic Cost) At 1 April** | **148,366** | **144,433** |
| Additions | 6,600 | 6,249 |

| | | |
|---|---|---|
| Derecognition | (828) | (175) |
| Depreciation | (9,770) | (10,061) |
| Impairment | 0 | 0 |
| Other movements in cost | 65 | 6,857 |
| **At 31 March** | **144,433** | **147,303** |

The following note provides a reconciliation between the Property, Plant & Equipment note versus the entry on the Balance Sheet for PPE.

| | 2020/21 £000 | 2021/22 £000 |
|---|---|---|
| Infrastructure Assets | 144,433 | 147,303 |
| Other PPE Assets | 377,295 | 363,877 |
| **PPE Assets per Balance Sheet** | **521,728** | **511,180** |

| Movements on balances in 2020-21 (comparative year) | Shared ownership £000 | Other land & buildings £000 | Vehicles, plant, furniture & equipment £000 | Infrastructure assets * £000 | Community assets £000 | Surplus assets £000 | Assets under construction £000 | Total property, plant & equipment £000 | PFI assets included in property, plant & equipment £000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | | | |
| At 1 April 2020 | 3,674 | 262,460 | 55,283 | 0 | 536 | 3,166 | 64,234 | 389,353 | 192,596 |
| Additions | 0 | 1,792 | 1,466 | 0 | 0 | 0 | 13,501 | 16,759 | 6,016 |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | 315 | 10,047 | 0 | 0 | 0 | 7,532 | 0 | 17,894 | 0 |
| Revaluation increases/ (decreases) recognised in the Surplus/deficit on the Provision of Services | 0 | (435) | 0 | 0 | 0 | (241) | 0 | (676) | 0 |
| Derecognition | 0 | (3,559) | (1,271) | 0 | 0 | (460) | 0 | (5,290) | (6,000) |
| Assets reclassified (to)/from held for sale | 0 | (1,491) | (55) | 0 | 0 | (96) | 0 | (1,642) | 0 |
| Other movements | 0 | 0 | 0 | 0 | 0 | 0 | (359) | (359) | 0 |
| Reclassification | 0 | (1,576) | 485 | 0 | 0 | 1,597 | (569) | (63) | 12 |
| At 31 March 2021 | 3,989 | 267,238 | 55,908 | 0 | 536 | 11,498 | 76,807 | 415,976 | 192,624 |

| Accumulated depreciation & impairment in 2020-21 (comparative year) | Shared ownership £000 | other land & buildings £000 | Vehicles, plant, furniture & equipment £000 | Infrastructure assets * £000 | Community assets £000 | Surplus assets £000 | Assets under construction £000 | Total property, plant & equipment £000 | PFI assets included in property, plant & equipment £000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2020 | 0 | (3,317) | (30,640) | 0 | (494) | (15) | 0 | (34,466) | (62,730) |
| Depreciation charge | 0 | (5,118) | (3,629) | 0 | 0 | (7) | 0 | (8,754) | (9,196) |
| Depreciation written out to the revaluation reserve | 0 | 2,930 | 0 | 0 | 0 | 0 | 0 | 2,930 | 0 |
| Depreciation written out to the Surplus/deficit on the provision of services | 0 | 228 | 0 | 0 | 0 | 33 | 0 | 261 | 0 |
| Derecognition | 0 | 128 | 1,180 | 0 | 0 | 0 | 0 | 1,308 | 5,173 |
| Assets reclassified (to)/from held for sale | 0 | (15) | 55 | 0 | 0 | 0 | 0 | 40 | 0 |
| Reclassification | 0 | 33 | 0 | 0 | 0 | (33) | 0 | 0 | 0 |
| At 31 March 2021 | 0 | (5,131) | (33,034) | 0 | (494) | (22) | 0 | (38,681) | (66,753) |
| Net book value at 31 March 2021 | **3,989** | **262,107** | **22,874** | **0** | **42** | **11,476** | **76,807** | **377,295** | **125,871** |
| Net book value at 31 March 2020 | 3,674 | 259,143 | 24,643 | 0 | 42 | 3,151 | 64,234 | 354,887 | 129,866 |

**Depreciation**

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Other land and buildings – straight-line allocation over the life of the property as estimated by the valuer (between 5 and 999 years. Based on depreciated value, 83% of properties fall within the 50 to 65 years range).
- Vehicles, plant, furniture and equipment - straight-line allocation over the life of each class of assets in the balance sheet, as advised by a suitably qualified officer (between 3 and 60 years)
- Infrastructure - straight-line allocation over estimated life of the asset (between 5 and 120 years).

**Capital commitments**

At 31 March 2022, the council's principal commitments relate to:

- Waste contract £13.808 million (over remaining life of 25 year contract)
- All Saints Freshwater Primary priority school building programme £4.025 million
- Ryde Highway/Bus Interchange £3.956 million
- Ryde Pier £3.606 million

- BAE Innovation Hub £1.566 million
- Smallbrook Junction Safety Scheme £0.922 million
- Branstone Farm Business Park £0.633 million
- Camp Hill Street Lighting £0.380 million
- Newport St George's Junction £0.355 million

Similar commitments at 31 March 2021 were £23.995 million.

**Effects of changes in estimates**

There have been no material changes to the council's accounting estimates for property, plant and equipment during 2021-22.

**Revaluations**

The council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at current value is revalued at least every five years. The effective date of these valuations is 31 March as valuations are based on inspection of assets in the last quarter of the financial year. An assessment is undertaken between the inspection date and balance sheet date to ensure that there have been no material changes.

The valuation of land and property were undertaken by Phillip Smith BSc (Hons), MRICS, IRRV (Hons), RICS Registered Valuer of Wilks Head & Eve LLP. These valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The significant assumptions applied in estimating the values are:

- Where there is no active market for land and buildings assets are valued on a depreciated replacement cost basis
- Investment properties, assets held for sale and surplus assets are valued at highest and best use to determine fair value
- Assets held for sale are valued at the lower of carrying value or net sale proceeds at reclassification
- Vehicles, plant and equipment, community assets, infrastructure assets and assets under construction are valued on acquisition value referred to as historic cost
- All other assets are valued on existing use value basis.

Fair value for investment properties, surplus properties and assets held for sale have been measured using significant observable inputs, being level 2 on the fair value hierarchy.

| Valuation profile | Shared ownership £000 | Other land & buildings £000 | Vehicles, plant, furniture & equipment £000 | Infrastructure assets £000 | Community assets £000 | Surplus assets £000 | Assets under construction £000 | Total property, plant & equipment £000 |
|---|---|---|---|---|---|---|---|---|
| Carried at historical cost | 0 | 0 | 19,760 | 147,303 | 41 | 0 | 51,197 | **218,301** |
| Valued at current as at: | | | | | | | | |
| 31 March 2022 | 0 | 106,210 | 0 | 0 | 0 | 2,174 | 0 | **108,384** |
| 31 March 2021 | 3,989 | 71,987 | 0 | 0 | 0 | 5,308 | 0 | **81,284** |
| 31 March 2020 | 0 | 52,706 | 0 | 0 | 0 | 166 | 0 | **52,872** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31 March 2019 | 0 | 26,716 | 0 | 0 | 0 | 86 | 0 | **26,802** |
| 31 March 2018 | 0 | 23,537 | 0 | 0 | 0 | 0 | 0 | **23,537** |
| Total | **3,989** | **281,156** | **19,760** | **147,303** | **41** | **7,734** | **52,197** | **511,180** |

## 15. Heritage assets

Reconciliation of the carrying value of heritage assets held by the council:

| Cost or valuation | Local government collection £000s | Art collection £000s | Archaeology treasure £000s | Total assets £000s |
|---|---|---|---|---|
| **31 March 2020** | **136** | **1,104** | **56** | **1,296** |
| 1 April 2020 | 136 | 1,104 | 56 | **1,296** |
| Revaluations | 0 | 0 | 1 | **1** |
| **31 March 2021** | **136** | **1,104** | **57** | **1,297** |
| 1 April 2021 | 136 | 1,104 | 57 | **1,297** |
| Revaluations | 0 | 0 | 0 | **0** |
| **31 March 2022** | **136** | **1,104** | **57** | **1,297** |

Analysed between cost/valuation and acquired/donated for each year:-

| Cost or valuation | Local government collection £000s | Art collection £000s | Archaeology treasure £000s | Total assets £000s |
|---|---|---|---|---|
| Cost | 136 | 262 | 0 | 398 |
| Valuation | 0 | 842 | 57 | 899 |
| 31 March 2021 | 136 | 1,104 | 57 | 1,297 |

| | | | | |
|---|---|---|---|---|
| Acquired | 0 | 848 | 55 | 903 |
| Donated | 136 | 256 | 2 | 394 |
| 31 March 2021 | **136** | **1,104** | **57** | **1,297** |

| Cost or valuation | Local government collection £000s | Art collection £000s | Archaeology treasure £000s | Total assets £000s |
|---|---|---|---|---|
| Cost | 136 | 262 | 0 | 398 |
| Valuation | 0 | 842 | 57 | 899 |
| **31 March 2022** | **136** | **1,104** | **57** | **1,297** |

| | | | | |
|---|---|---|---|---|
| Acquired | 0 | 848 | 55 | 903 |
| Donated | 136 | 256 | 2 | 394 |
| **31 March 2022** | **136** | **1,104** | **57** | **1,297** |

## 16. Investment properties

The following items of income and expense have been accounted for in the financing and investment income and expenditure line in the comprehensive income and expenditure statement:

| 2020-21 £000 | | **2021-22 £000** |
|---|---|---|
| (1,938) | Rental income from investment properties | **(1,697)** |
| 1,035 | Direct operating expenses arising from investment property | **889** |
| (903) | **Net gain** | **(808)** |

There are no restrictions on the council's ability to realise the value inherent in its investment property or on the council's right to the remittance of income and the proceeds of disposal. The council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement. The following table summarises the movement in the fair value of investment properties over the year:

| | 31 March 2021 £000 | **31 March 2022 £000** |
|---|---|---|
| Balance at 1 April | 33,095 | **35,050** |
| Disposals | 0 | **0** |
| Net gain from fair value adjustments | 1,955 | **6,300** |
| **Balance at 31 March** | 35,050 | **41,350** |

**Fair value hierarchy**

Details of the council's investment properties and information about the fair value hierarchy as at 31 March 2022 and the comparative year are as follows:

| **Recurring fair value measurement using:** | **Quoted prices in active markets for identical assets (level 1) £000s** | **Other significant observable inputs (level 2) £000s** | **Significant unobservable inputs (level 3) £000s** | **Fair value as at 31 March 2022 £000s** |
|---|---|---|---|---|
| Commercial properties | 0 | 41,350 | 0 | 41,350 |
| **Total at 31 March 2022** | **0** | **41,350** | **0** | **41,350** |

| Recurring fair value measurement using: (Previous year comparative figures) | Quoted prices in active markets for identical assets (level 1) £000s | Other significant observable inputs (level 2) £000s | Significant unobservable inputs (level 3) £000s | Fair value as at 31 March 2021 £000s |
|---|---|---|---|---|
| Commercial properties | 0 | 35,050 | 0 | 35,050 |
| Total at 31 March 2021 | 0 | 35,050 | 0 | 35,050 |

**Transfers between levels of the fair value hierarchy**

There were no transfers between levels 1 and 2 during the year.

**Valuation techniques used to determine level 2 fair values for investment properties**

Significant observable inputs - Level 2

The fair value for commercial and other investment properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

**Highest and best use of investment properties**

In estimating the fair value of the council's investment properties, the highest and best use of the properties is their current use.

**Changes in valuation techniques**

There has been no change in the valuation techniques used during the year for investment properties.

**Valuation process for investment properties**

The fair value of the council's investment properties is measured annually at each reporting date. Off-island commercial property valuations were undertaken by Robert Baldwin MRICS of Avison Young.

**Market Conditions: Novel Coronavirus (COVID-19)**

The investment properties valuer has provided the following explanatory note:

The outbreak of COVID-19, declared by the World Health Organisation as a "Global Pandemic" on the 11 March 2020, has and continues to impact many aspects of daily life and the global economy – with some real estate markets having experienced lower levels of transactional activity and liquidity. Travel, movements and operational restrictions have been implemented by many countries, in some cases "lockdowns" have been applied to varying degrees and to reflect further "waves" of COVID-19; although these may imply a new stage of the crisis, they are not unprecedented in the same way as the initial impact.

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets have started to function again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, our valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

For the avoidance of doubt this explanatory note has been included to ensure transparency and to provide further insight as to the market context under which the valuation opinion was prepared. In recognition of the potential for market conditions to move rapidly in response to changes in the control or future spread of COVID-19 we highlight the importance of the valuation date.

## 17. Intangible assets

The council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular information and communications technology system and accounted for as part of the hardware item of property, plant and equipment. Software development costs are recognised as part of the hardware item of property, plant and equipment. The intangible assets include both purchased licenses and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the council.

The carrying value of intangible assets at 31 March 2022 is £0.339 million (£0.293 million at 31 March 2021). The figures at 31 March 2022 comprise internally generated assets of £0.043 million (£0.112 million at 31 March 2021) and purchased assets of £0.296 million (£0.181 million at 31 March 2021).

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.232 million was charged to the comprehensive income and expenditure statement in 2021-22, of which £0.178 million was charged to the ICT service within the Resources service line.

The council does not revalue its software assets and holds these at historic cost less accumulated amortisation with annual reviews for impairment. Software licenses are not transferable so obtaining a current value is not possible.

At 31 March 2022 there are no contractual commitments for the acquisition of intangible assets.

## 18. Financial instruments

**Classifications**

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

**Financial liabilities**

A financial liability is an obligation to transfer economic benefits controlled by the council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the council.

The council's financial liabilities held during the year are measured at amortised cost and comprised:

- long-term loans from the Public Works Loan Board (PWLB)
- a lender option/borrower option (LOBO) loan
- short-term loans from other local authorities
- overdraft facilities with Lloyds Bank plc
- finance leases
- private finance initiative (PFI) contract
- trade payables for goods and services received.

**Financial assets**

A financial asset is a right to future economic benefits controlled by the council that is represented by cash or other instruments of a contractual right to receive cash or another financial asset. The financial assets held by the council during the year are held under the following classification:

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- cash in hand
- bank current and deposit accounts
- fixed term deposits with banks and building societies
- loans to other local authorities
- loans made to the Isle of Wight Council Pension Fund for cash flow purposes
- loans made for service purposes
- lease receivables
- trade receivables for goods and services delivered

The following categories of financial instrument are carried in the balance sheet at amortised cost:

| | Non-current | | Current | |
|---|---|---|---|---|
| | 31 March 2021 | **31 March 2022** | 31 March 2021 | **31 March 2022** |
| | £000 | **£000** | £000 | **£000** |
| **Financial assets** | | | | |
| Short-term Investments | - | **0** | 43,535 | **40,526** |
| Cash equivalents | - | **0** | 24,804 | **10,005** |
| **Total investments** | 0 | **0** | 68,339 | **50,531** |
| **Debtors** | | | | |
| Long-term debtors | 1,267 | **2,695** | - | **0** |
| Short-term debtors and cash | - | **0** | 30,003 | **25,906** |
| **Total debtors** | 1,267 | **2,695** | 30,003 | **25,906** |
| | | | | |
| **Financial liabilities** | | | | |

| | | | | |
|---|---|---|---|---|
| Borrowings | (180,827) | **(168,189)** | (63,166) | **(33,767)** |
| **Total borrowings** | (180,827) | **(168,169)** | (63,166) | **(33,767)** |
| | | | | |
| **Other long-term liabilities & creditors** | | | | |
| PFI and finance lease liabilities | (97,261) | **(92,458)** | (3,661) | **(4,805)** |
| Other financial liabilities | (99) | **(126)** | (8,424) | **(11,616)** |
| **Total other long-term liabilities & creditors** | (97,360) | **(92,584)** | (12,085) | **(16,421)** |

### Income, expense, gains and losses

| | 2020-21 £000 | **2021-22 £000** |
|---|---|---|
| Interest expense from financial liabilities measures at amortised cost | (15,627) | **(15,119)** |
| Total expense in surplus or deficit on the provision of services | (15,627) | **(15,119)** |
| Interest income from financial assets: loans and receivables | 330 | **106** |
| Total expense in surplus or deficit on the provision of services | 330 | **106** |
| **Net loss for the year** | (15,297) | **(15,013)** |

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- estimated ranges of interest rates at 31 March 2022 of 2.11% to 2.79%.for loans from the PWLB, based on new lending rates for equivalent loans at that date
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

| **Liabilities** | 31 March 2021 | | **31 March 2022** | |
|---|---|---|---|---|
| | Carrying amount | Fair value | **Carrying amount** | **Fair value** |
| | £000 | £000 | **£000** | **£000** |
| Financial liabilities | 256,078 | 265,320 | **218,378** | **223,076** |
| Long-term creditors | 97,360 | 152,856 | **92,584** | **143,327** |

- the carrying value of the council's portfolio of PWLB loans is £181.814 million. The fair value has been calculated as £185.169 million and this measures the economic effect of the terms agreed with the PWLB compared with the terms that would be offered for market transactions undertaken at the balance sheet date. The difference between the carrying value and the fair value measures the additional interest that the council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates. However, the council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. If the council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption and charge a premium for the additional interest that would not be paid. The fair value of PWLB loans has been calculated by discounting the contractual cash flows at the market rate for local authority loans of the same remaining term. This represents level 2 on the valuation hierarchy being inputs other than quoted prices that are observable for the liability e.g. interest rates or yields for similar instruments.

- a Lender Option Borrower Option (LOBO) loan amounting to £5.000 million with a carrying value (including accrued interest) of £5.075 million. The lender has the option to request a change in the interest rate which could lead the council to make an early repayment. The lender has not exercised their option to change the interest rate. The fair value of the LOBO loan has been calculated at £6.508 million by discounting the contractual cash flows at the market rate for local authority loans of the same remaining term and adding the value of the lender's option from a market option pricing model. This represents level 2 on the valuation hierarchy being inputs other than quoted prices that are observable for the liability e.g. interest rates or yields for similar instruments.

- The fair value of long-term creditors is more than the carrying amount due to fair value being calculated on discounted contractual cash flows at the AA bond yield of the same remaining term. This represents level 2 on the valuation hierarchy being inputs other than quoted prices that are observable for the liability e.g. interest rates or yields for similar instruments.

| **Assets** | 31 March 2021 | | **31 March 2022** | |
|---|---|---|---|---|
| | Carrying amount | Fair value | **Carrying amount** | **Fair value** |
| | £000 | £000 | **£000** | **£000** |
| Short-term investments, debtors, cash and cash equivalents | 98,342 | 98,347 | **76,437** | **76,295** |
| Long-term debtors | 1,267 | 1,267 | **2,695** | **2,695** |

- The fair value of short-term loans and receivables is higher than their carrying value as the council's investments include a number of temporary loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date.
- The fair value of long-term debtors is equal to the carrying value as this is a fair approximation of their value. The carrying value shown above is before the reduction relating to an impairment allowance.

**Other long-term liabilities**
The liability relating to the defined benefit pension schemes (Local Government Pension Scheme and the Fire-fighters' Pension Fund) is £203,372 million (£360.212 million in 2020-21).

## 19. Nature and extent of risks arising from financial instruments

The council's activities expose it to a variety of risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the council
- liquidity risk – the possibility that the council might not have the funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the council as a result of changes in such measures as interest rates and stock market movements.

The council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. The procedures for risk management are set out in the Local Government Act 2003 and the associated regulations. These require the council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and the Investment Guidance issued through the Act. Overall these procedures require the council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting;
    - the council's overall borrowing
    - its maximum and minimum exposures to fixed and variable rates
    - the maturity structure of its debt
    - its maximum annual exposures to investments maturing beyond one year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the government guidance.

These are required to be reported and approved at or before the council's annual council tax setting budget meeting. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the council's financial instrument exposure.

These policies are implemented by a central treasury team. The council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash through treasury management practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

**Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the council's customers. The risk is minimised through the annual investment strategy, which requires that deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. The annual investment strategy also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria in respect of financial assets held by the council are as detailed below:

- rating of A2 or better
- stable credit rating outlook

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the council.

The council's maximum exposure to credit risk in relation to its investments with banks of £10.005 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non-recovery applies to all council's deposits, but there was no evidence as at the 31 March 2022 that this was likely to crystalise.

The council's short-term investments are with the Isle of Wight Council Pension Fund and other local authorities. These investments have been assessed and it has been concluded that the expected credit loss is not material therefore no allowances have been made.

The impairment loss allowance on short-term debtors is calculated on a sliding scale of percentages applied to the outstanding amounts based on age profile, historical levels and nature of the debts. Following the COVID-19 pandemic these percentages have been revised to reflect the greater risk of debtor default and the impairment loss allowance have consequently increased. The amount of debtors written-off in 2021-22 (excluding local taxation debtors) was £0.175 million (£0.250 million in 2020-21). The amount of local taxation debtors written-off in both years is shown in the Collection Fund Statement. The impairment on long-term debtors is based on a credit scoring matrix taking financial statements, market conditions and other relevant factors into account. Details of the amounts outstanding at 31 March, the impairment allowances and resulting balances after the impairment allowances are shown in note 21.

The other short-term debtors figure in note 21 includes £1.779 million of deferred payments at 31 March 2022 (£1.877 million at 31 March 2021) made in respect of care fees for clients in residential or nursing homes. No impairment allowance has been applied as legislation allows the council to place a legal charge or to register an interest on the client's property and so consequently the debt is covered by the value of the property.

The council's exposure to credit risk is managed in accordance with its annual treasury management strategy which for 2021-22 was approved by the council in March 2022. Amongst other controls, the strategy sets out the arrangements for managing credit risk (i.e. the risks of borrowers defaulting). The main controls used are:

- Using credit ratings to assess the credit standing of borrowers
- Defining a list of borrowers to which the council considers it secure to lend (the lending list)
- Defining limits to its exposure to any one institution or group of institutions
- Defining time limits as to how long the council will lend to particular institutions
- Considering advice from external treasury management advisors

In ordinary circumstances, these controls once set are sufficient to manage any credit risk. However due to the impact of the current COVID-19 pandemic on the global economic situation, it has been necessary to monitor these controls more closely, including the following:

Credit ratings and outlook for each borrower are continuously monitored and reviewed on a daily basis:

- The lending list is reviewed as a result of credit ratings analysis and other intelligence information, including external treasury management advisor's information
- Borrowers' limits are changed in accordance with those reviews (in 2021-22 lending limits were revised throughout the year, depending on interest rates, security and external treasury management advisors' recommendations)
- During the year, the council placed most of its surplus funds in instant access/call accounts with banks, to take advantage of higher interest rates.
- The strategy for treasury management activity is reviewed by the section 151 officer and other senior finance officers on a monthly basis. Appropriate actions have been taken as a result of those reviews

The council's treasury management strategy approved on 14 March 2022 is located on the council's website www.iwight.com

No credit limits were exceeded during the reporting period and the council does not expect any losses from any of its counterparties in relation to deposits. The amount shown as the exposure due to default and non-collectability is covered by the impairment allowance.

The council does not generally allow credit for customers, such that £6.843 million is due for payment at 31 March 2022 (£5.292 million at 31 March 2021) from invoices raised through the council's accounts receivable system. This amount due can be analysed by age as follows:

| | 31 March 2021 | **31 March 2022** |
|---|---|---|
| | £000 | **£000** |
| Less than two months | 2,088 | **2,254** |
| Two to four months | 392 | **513** |
| Four months to one year | 1,245 | **1,295** |
| More than one year | 1,567 | **2,781** |
| **Total** | 5,292 | **6,843** |

**Liquidity risk**

The council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements occur, the council has ready access to borrowings from the money market and the Public Works Loan Board (PWLB). There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The council sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure the careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The council has a lender option/borrower option (LOBO) loan for a total of £5.000 million. Under the arrangement for this LOBO loan, the lenders have the option to increase the interest rate each year. If the lenders were to increase the interest rate, the council has the right to repay the loan without penalty. In this case, it is possible that the council would have to pay higher interest if it chose to replace the loan. The lender has not exercised their option to change the interest rate.

With the exception of £40.526 million in temporary loans with other local authorities and money held on behalf of various trust, amenity and safekeeping funds, the remainder of the council's borrowing consists of fixed rate PWLB debt. The PWLB allows debt to be rescheduled prior to maturity, although this may necessitate paying a premium to PWLB. The maturity analysis of financial liabilities for external borrowing is as follows:

| | 31 March 2021 | **31 March 2022** |
|---|---|---|
| | £000 | **£000** |
| Less than one year | 63,166 | **33,767** |
| Between one and two years | 12,638 | **11,638** |

| | | |
|---|---|---|
| Between two and five years | 33,001 | **39,601** |
| Between five and ten years | 60,788 | **46,884** |
| Between ten and fifteen years | 38,667 | **38,666** |
| Between fifteen and twenty years | 20,667 | **19,067** |
| Between twenty and twenty five years | 10,066 | **8,666** |
| More than twenty five years | 5,000 | **3,667** |
| Total external borrowing | 243,993 | **201,956** |
| Of which, Public Works Loan Board (PWLB) | 192,665 | **180,827** |

The maturity analysis of the LOBO loan is shown below. This loan is included in the 'Less than one year' category above, together with accrued interest at 31 March and some other temporary loans held for internal cash management purposes.

| **Amount (£000)** | **Interest rate (%)** | **Final maturity date** |
|---|---|---|
| 5,000 | 4.27 | 25/11/2041 |

The council has long-term liabilities arising from the highways PFI scheme and the acquisition of vehicles under finance leases.

The most significant long-term liability relates to the highways PFI scheme (£96.805 million) at 31 March 2022 (£100.953 million at 31 March 2021). As the additional costs of this scheme, over and above the council's existing budgetary provision for highways management, is met through government funding (PFI credits), there is no significant risk that the council will be unable to raise finance to meet its commitments to the PFI contractor.

The maturity analysis of financial liabilities for deferred liabilities is as follows:

| | 31 March 2021 | **31 March 2022** |
|---|---|---|
| | £000 | **£000** |
| Less than one year | 3,661 | **4,691** |
| Between one and two years | 4,805 | **4,938** |
| Between two and five years | 15,939 | **16,542** |
| Between five and ten years | 29,924 | **28,690** |
| More than ten years | 46,624 | **41,944** |
| **Total** | 100,953 | **96,805** |

All other payables are due to be paid in less than one year.

**Market risk**

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

- borrowings at variable rates – the interest expense charged to the surplus or deficit on the provision of services will rise.
- borrowings at fixed rates – the fair value of the liability borrowing will fall
- investments at variable rates – the interest income credited to the surplus or deficit on the provision of services will rise
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the surplus or deficit on the provision of services or other comprehensive income and expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the surplus or deficit on the provision of services and affect the general fund balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in other comprehensive income and expenditure.

The council has a number of strategies for managing interest rate risk. The annual treasury management strategy draws together the council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy, a prudential indicator is set which provides minimum and maximum limits for fixed and variable rate exposure. There is an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and market and forecast interest rates are monitored within the year to allow any adverse changes to be accommodated by adjusting exposures appropriately. The analysis will also advise whether new borrowing taken out is fixed or variable. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grants payable on financing costs will normally move with prevailing interest rates or the council's cost of borrowing and provide compensation for a proportion of any higher costs.

According to this assessment strategy, at 31 March 2022, if interest rates had been 1% higher with all other variables held constant, the financial effect would have been an increase in investment income of £0.762 million. The impact of a 1% fall in interest rates would be as above, but with the movements being reversed. However, as investment interest rates remained low for the duration of 2021-22, the impact would have been limited to the actual amount of investment income received (£0.079 million). The majority of external borrowing is at fixed rates through the PWLB or LOBO loans, but the impact of a 1% increase in temporary borrowing rates would have been an increase in interest payable of £0.316 million. The impact of a 1% fall in interest rates would be as above, but with the movements being reversed. The actual amount of temporary loan interest paid in 2021-22 is £0.048 million. Therefore, an increase or decrease in general interest rates would have had a minimal impact on the surplus or deficit on the provision of services in the comprehensive income and expenditure statement. However, such a change would increase or decrease the fair value of fixed rate borrowing liabilities.

**Price risk** - The council has no equity shares or shareholdings. It therefore has no exposure to loss arising from movements in share prices.

**Foreign exchange risk** - The council has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

## 20. Inventories

Inventories comprise stocks held for resale at 31 March 2022 with a value of £0.065 million (£0.067 million at 31 March 2021).

## 21. Debtors

The council's short-term debtors are as follows:

| | 31 March 2021 £000 | **31 March 2022 £000** |
|---|---|---|
| Trade receivables | 17,489 | **15,238** |
| Less: impairment allowance | (2,241) | **(3,150)** |
| Trade receivables (net of impairment allowance) | 15,248 | **12,088** |
| Local taxpayers | 10,991 | **12,215** |
| Less: impairment allowance | (6,316) | **(7,500)** |
| Local taxpayers (net of impairment allowance) | 4,675 | **4,715** |
| Housing benefit overpayments | 2,124 | **1,952** |
| Less: impairment allowance | (1,680) | **(1,548)** |
| Housing benefit overpayments (net of impairment allowance) | 444 | **404** |

| | | |
|---|---|---|
| Prepayments and accrued income | 18,255 | **10,917** |
| Other debtors | 2,440 | **2,231** |
| **Total short-term debtors (net of impairment allowance)** | 41,062 | **30,355** |

The total debtor balance is further analysed between financial instruments and non-financial instruments as follows:

| | 31 March 2021 £000 | **31 March 2022 £000** |
|---|---|---|
| Financial instruments | 19,459 | **14,966** |
| Non-financial instruments | 21,603 | **15,389** |
| **Total debtors (net of impairment allowance)** | 41,062 | **30,355** |

The council's long-term debtors are as follows:

| | 31 March 2021 £000 | **31 March 2022 £000** |
|---|---|---|
| Capital loans to renewable energy businesses | 1,101 | **1,112** |
| Less: impairment allowance | (163) | **(163)** |
| Capital loans net of impairment allowance | 938 | **949** |
| Other loans | 166 | **1,583** |
| **Total long-term debtors (net of impairment allowance)** | 1,104 | **2,532** |

The lifetime expected impairment has been assessed based on a credit scoring matrix taking financial statements, market conditions and other relevant factors into consideration. The impairment allowance will be reviewed annually and reversed or increased in accordance with any change in the impairment risk as indicated by the credit scoring matrix.

## 22. Debtors for local taxation

The net debtor balance on local taxation (council tax and business rates) after the impairment allowance can be analysed by age as follows:

| | **Council tax** | | **Business rates** | |
|---|---|---|---|---|
| | **£000s** | | **£000s** | |
| | 31 March 2021 | **31 March 2022** | 31 March 2021 | **31 March 2022** |
| Less than one year | 4,194 | **4,785** | 1,142 | **1,173** |
| Between one and two years | 2,421 | **2,702** | 680 | **412** |
| Between two and five years | 2,995 | **3,754** | 331 | **518** |
| More than five years | 1,498 | **1,824** | 42 | **50** |
| **Total due** | 11,108 | **13,065** | 2,195 | **2,153** |
| Less: share attributed to Police & Crime Commissioner for Hampshire | (1,214) | **(1,444)** | - | **0** |
| Less: share attributed to Hampshire and IOW Fire Service | 0 | **(461)** | 0 | **(22)** |
| Less: share attributed to Central Government | - | **0** | (1,098) | **(1,076)** |
| **Council's share before impairment allowance** | 9,894 | **11,160** | 1,097 | **1,055** |

| | | | | |
|---|---|---|---|---|
| Council's share of impairment allowance | (5,413) | **(6,790)** | (903) | **(711)** |
| **Net debtor balance after impairment allowance** | 4,481 | **4,370** | 194 | **344** |

The impairment allowance is calculated on a sliding scale of percentages applied to the outstanding amounts based on an age profile of the debts.

## 23. Cash and cash equivalents

| | 31 March 2021 £000 | **31 March 2022 £000** |
|---|---|---|
| Cash held by the council | 6,623 | **6,242** |
| Short-term deposits with banks | 24,803 | **10,005** |
| Bank current accounts | 7,423 | **5,221** |
| **Total** | 38,849 | **21,468** |

## 24. Assets held for sale

Assets are reclassified from property, plant and equipment as assets held for sale where a sale is highly probable, the asset is being actively marketed, the sale is likely to be completed within one year from classification and the decision to sell is unlikely to be withdrawn.

Valuation of assets in this class are the lower of carrying value prior to reclassification and net proceeds. The CIPFA Code of Practice requires impairments to be charged to the comprehensive income and expenditure statement even if there is a retained balance on the revaluation reserve relating to the asset. Revaluation reserve balances are written-out upon disposal of the asset.

All of the assets held for sale meet the criteria for classification as current assets in both 2020-21 and 2021-22.

| | **Current** | |
|---|---|---|
| | 2020-21 £000 | **2021-22 £000** |
| **Balance at 1 April** | 595 | **793** |
| Assets newly qualified as held for sale: Property, Plant & Equipment | 1,797 | **5,571** |
| Assets declassified as held for sale: Property, Plant & Equipment | (195) | **0** |
| Assets sold | (1,404) | **(538)** |
| **Balance at 31 March** | 793 | **5,826** |

## 25. Creditors

| | 31 March 2021 £000 | **31 March 2022 £000** |
|---|---|---|
| Trade creditors | 12,279 | **12,945** |
| Central government – Business rates | 0 | **0** |
| Local taxpayers | 3,009 | **4,303** |
| Other tax and social security payable | 1,440 | **1,720** |
| Highways PFI finance lease liability (short-term) | 3,553 | **4,691** |
| BEIS business grants receipts in advance | 20,558 | **10,263** |
| Other receipts in advance | 17,881 | **25,934** |

| | | |
|---|---|---|
| Other creditors | 5,121 | **4,961** |
| **Total** | 63,841 | **64,817** |

The total creditor balance is further analysed between financial instruments and non-financial instruments as follows:

| | 31 March 2021 £000 | **31 March 2022 £000** |
|---|---|---|
| Financial instruments | 15,847 | **18,837** |
| Non-financial instruments | 47,994 | **47,980** |
| **Total** | 63,841 | **64,817** |

## 26. Provisions

| | **Outstanding Insurance Claims £000** | **Outstanding Legal Cases £'000** | **Business Rates appeals £000** | **Total £000** |
|---|---|---|---|---|
| Balance at 1 April 2021 | 1,893 | 0 | 4,455 | **6,348** |
| Additional provision made in 2021-22 | 7 | 350 | 1,562 | **1,919** |
| Amounts used in 2021-22 | (245) | 0 | (2,025) | **(2,270)** |
| Amounts reversed in 2021-22 | 0 | 0 | 0 | **0** |
| **Balance at 31 March 2022** | **1,655** | **350** | **3,992** | **5,997** |

Analysis of provisions between short and long term:

| | 2020-21 £000 | **2021-22 £000** |
|---|---|---|
| Short-term provisions | 5,092 | **4,643** |
| Long-term provisions | 1,347 | **1,354** |
| **Balance at 31 March** | 6,439 | **5,997** |

**Outstanding insurance claims**
The Insurance Provision at 31 March 2022 is based on an estimate of potential liabilities arising from outstanding claims. Of the total at 31 March 2022, £0.301 million relates to public and employers' liability following an assessment of the council's claims register to establish the likely exposure. The provision also includes an estimate of the liability arising from the scheme of arrangement established by Municipal Mutual Insurance (MMI) (who were the council's insurers until 1992) in respect of the potential total or partial 'clawback' of claims paid since January 1994. In November 2012 the directors of MMI triggered the company's scheme of arrangement following a Supreme Court judgement relating to mesothelioma claims. Of the total insurance provision of £1.655 million, £1.354 million relates to the potential MMI clawback. This potential clawback has been categorised as a long-term liability.

**Business rates appeals**
This provision relates to the council's share of an estimate of the potential value of refunds which will be due to ratepayers following a successful appeal against a rateable value on both the 2010 and 2017 valuation lists. It includes amounts which may be backdated to 1 April 2010. Under the business rate retention scheme applicable to 2021-22, the council has retained 49% of business rates income and the same proportion applies to balance sheet values at 31 March 2022.

**Analysis of provisions between short and long term**
It is expected that the costs relating to short-term liabilities will be incurred in 2022-23.

## 27. Usable reserves

Usable reserves are those which the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

| | 31 March 2021 £000 | **31 March 2022 £000** |
|---|---|---|
| General fund balance | 13,646 | **12,057** |
| Capital receipts reserve | 3,324 | **1,938** |
| Capital grants unapplied | 7,595 | **5,782** |
| Earmarked reserves (see note 10) | 103,726 | **113,024** |
| **Total usable reserves** | 128,291 | **132,801** |

The movements on the council's usable reserves are detailed in the movement in the reserves statement.

## 28. Unusable reserves

| | 31 March 2021 £000 | **31 March 2022 £000** |
|---|---|---|
| Revaluation reserve | 151,702 | **147,757** |
| Capital adjustment account | 2,675 | **8,941** |
| Pensions reserve | (360,212) | **(203,412)** |
| Collection fund adjustment account | (15,104) | **(6,799)** |
| Accumulated absences account | (3,014) | **(3,219)** |
| Dedicated Schools Grant adjustment account | (4,299) | **(6,344)** |
| **Total unusable reserves** | **(228,252)** | **(63,076)** |

### Revaluation reserve

The revaluation reserve contains the gains made by the council arising from increases in the value of property, plant and equipment and intangible assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the capital adjustment account.

| 2020-21 £000 | | **Revaluation reserve** | **2021-22 £000** | |
|---|---|---|---|---|
| | 136,236 | Balance at 1 April | | **151,702** |
| 23,838 | | Upward revaluation of assets | **19,291** | |
| (3,014) | | Downward revaluation of assets and impairment losses not charged to the surplus/ deficit on the provision of services | **(14,454)** | |

| | | | | |
|---|---|---|---|---|
| | 20,824 | Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services | | **(4,837)** |
| (2,615) | | Difference between current depreciation and historical cost depreciation | **(2,772)** | |
| (2,743) | | Accumulated gains on assets sold or scrapped | **(6,010)** | |
| | (5,358) | Amount written off to the capital adjustment account | | **(8,782)** |
| | 151,702 | **Balance at 31 March** | | **147,757** |

**Capital adjustment account**

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the comprehensive income and expenditure statement (with reconciling postings from the revaluation reserve to convert current figures to a historical cost basis). The account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the council.

The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains.

Note 9 provides details of the source of all the transactions posted to the account, apart from those involving the revaluation reserve.

| 2020-21 £000 | | **Capital adjustment account** | **2021-22 £000** | |
|---|---|---|---|---|
| | (597) | Balance at 1 April | | **2,675** |
| | | Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement: | | |
| (18,262) | | • Charges for depreciation and impairment of assets | **(17,996)** | |
| (676) | | • Revaluation (losses)/reversals on property, plant & equipment | **(4,235)** | |
| (338) | | • Amortisation of intangible assets | **(232)** | |
| (4,220) | | • Revenue expenditure funded from capital under statute | **(2,028)** | |
| 11 | | • Capitalised interest | **11** | |
| 0 | | • Impairment allowance for long-term debts | **0** | |
| (6,215) | | • Amounts of assets written-off on disposal or sale as part of the gain/loss on disposal to the comprehensive income and expenditure statement | **(13,597)** | |
| (1,781) | | • Capital loans repaid | **(82)** | |
| | (31,481) | | | **(38,159)** |
| | 5,358 | Adjusting amounts written out of the revaluation reserve | | **8,782** |

| | | | | |
|---|---|---|---|---|
| | (26,720) | Net written out amount of the cost of non-current assets consumed in the year | | **(26,702)** |
| | | Capital financing applied in the year: | | |
| 2,470 | | • Use of capital receipts reserve to finance new capital expenditure | **1,805** | |
| 81 | | • Use of capital receipts reserve for repayment of debt | **82** | |
| 14,530 | | • Capital grants and contributions credited to the comprehensive income and expenditure statement that have been applied to capital financing | **15,198** | |
| 6,254 | | • Application of grants to capital financing from the capital grants unapplied account | **4,833** | |
| 0 | | • Statutory provision for the financing of capital investment charged against the general fund | **5,171** | |
| 4,105 | | • Capital expenditure charged against the general fund | **2,261** | |
| | 27,440 | | | **29,350** |
| | 1,955 | Movement in the market value of investment properties debited or credited to the comprehensive income & expenditure statement | | **6,300** |
| | 0 | Other movements | | **(7)** |
| | 2,675 | **Balance at 31 March** | | **8,941** |

**Pension reserve**

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits to be financed as the council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| 2020-21 | **Pension reserve** | **2021-22** |
|---|---|---|
| £000 | | **£000** |
| 247,723 | Balance at 1 April | **360,210** |
| 0 | Transfer of Fire-fighters' Pension Scheme to Hampshire & IOW Rescue Service | **(93,700)** |
| 103,313 | Actuarial (gains) and losses on pensions assets and liabilities | **(85,222)** |
| 26,266 | Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement | **36,424** |
| (16,620) | Employer's pensions contributions and direct payments to pensioners payable in the year | **(14,914)** |
| (443) | Fire-fighters' Pension Scheme – movement on top-up grant repayable from Government | **574** |
| (29) | Capitalised pension - movement | **40** |
| 360,210 | **Balance at 31 March** | **203,412** |

**Collection fund adjustment account**

The collection fund adjustment account manages the differences arising from the recognition of council tax and non-domestic rate income in the comprehensive income and expenditure statement as it falls due from local taxpayers compared with the statutory arrangements for paying across amounts to the general fund from the collection fund.

| 2020-21 | Collection fund adjustment account | 2021-22 |
|---|---|---|
| £000 | | £000 |
| 380 | Balance at 1 April | 15,104 |
| 1,641 | Amount by which council tax income credited to the comprehensive income and expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements (note CF4 to the collection fund) | (1,784) |
| 13,083 | Amount by which non-domestic rate income credited to the comprehensive income and expenditure statement is different from non-domestic rate income calculated for the year in accordance with statutory requirements (note CF5b to the collection fund) | (6,521) |
| 15,104 | **Balance at 31 March** | 6,799 |

**Accumulated absences account**

The accumulated absences account absorbs the difference that would otherwise arise on the general fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the general fund is neutralised by transfers to or from the account. The balance at 31 March 2022 is £3.219 million (£3.014 million at 31 March 2021).

**Dedicated Schools Grant adjustment account**

The Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2020, SI 2020 No 1212 requires that where a local authority has a deficit in respect of its schools budget for the financial year beginning after 1st April 2020, the deficit must be shown as an unusable reserve, rather than a deficit earmarked reserve.

| Dedicated Schools Grant adjustment account | 2021-22 |
|---|---|
| | £000 |
| Balance at 1 April | 4,299 |
| Adjustments between accounting basis and funding basis under statutory provisions (in-year Schools Budget Deficit) | 2,045 |
| **Balance at 31 March** | 6,344 |

## 29. Cash flow statement – operating activities (interest)

The cash flows for operating activities include the following items:

| 2020-21 | | 2021-22 |
|---|---|---|
| £000's | | £000's |
| 15,388 | Interest received | 19,620 |
| (33,666) | Interest paid | (33,875) |

## 30. Cash flow statement – operating activities

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

| 2020-21 | | 2021-22 | |
|---|---|---|---|
| £000 | | £000 | £000 |

| | | | |
|---|---|---|---|
| 18,262 | Depreciation | **22,231** | |
| 676 | Impairment and downward valuations (reversed) | **0** | |
| 338 | Amortisation | **232** | |
| 0 | Movement in contract assets, liabilities and costs (IFRS15) | **4,691** | |
| 32,637 | Increase/decrease in creditors | **(4,218)** | |
| (2,840) | Increase/decrease in debtors | **1,970** | |
| 19 | Increase/decrease in inventories | **2** | |
| 9,646 | Movement in pension liability | **(72,150)** | |
| 6,215 | Carrying amount for non-current assets and non-current assets held for sale, sold or derecognised | **13,597** | |
| (3,324) | Other non-cash items charged to the net surplus or deficit on the provision of services | **(7,542)** | |
| 61,629 | **Adjustments to net deficit on the provision of services for non-cash movements** | | **(41,187)** |
| | Adjustment for items in the net surplus or deficit on the provision of services that are investing or financing activities:- | | |
| (1,820) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | **(418)** | |
| (16,189) | Any other items for which the cash effects are investing or financing cash flows | **(17,820)** | |
| (18,009) | **Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities** | | **(18,238)** |

## 31. Cash flow statement – investing activities

| 2020-21 | | **2021-22** |
|---|---|---|
| £000 | | **£000** |
| (23,468) | Purchase of property, plant & equipment, investment property and intangible assets | **(26,390)** |
| (43,500) | Purchase of short-term and long-term investments | **(40,500)** |
| 0 | Other payments for investing activities | **(11)** |
| 1,820 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | **418** |
| 37,000 | Proceeds from short-term and long-term investments | **43,500** |
| 22,064 | Other receipts from investing activities | **23,649** |
| (6,084) | **Net cash flows from investing activities** | **666** |

## 32. Cash flow statement – financing activities

| 2020-21 | | **2021-22** |
|---|---|---|
| £000's | | **£000's** |
| 45,000 | Cash receipts of short and long-term borrowing | **30,000** |
| 0 | Other receipts for financing activities | **0** |
| (1,013) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | **(3,658)** |
| (81,640) | Repayments of short and long-term borrowing | **(71,844)** |

| | | |
|---|---|---|
| (9,679) | Billing authority - council tax and business rate adjustments | **7,248** |
| (47,332) | **Net cash flows from financing activities** | **(38,254)** |

## 33. Agency services

The council, as billing authority, acts as an agent for the government in collecting business rates. The council received an allowance from the government for the cost of collection of £0.268 million in 2021-22 (£0.266 million in 2020-21).

As part of the response to the restrictions imposed during the Covid-19 pandemic, the government introduced a range of grants to support local businesses. Where the eligibility criteria is specified by the government, the council is deemed to have acted as an agent in administering these grants. The total of Local Restrictions Support Grants (LRSG) paid during 2021-22 is £23.652 million and this is funded by the government. There was a further £1.424 million of other Covid-19 related payments made where the council were acting as an agent and these were also funded by the government. The income and expenditure relating to these grants and payments have been excluded from the comprehensive income and expenditure statement, although any debtor or creditor position between the council and the government is included in the Balance Sheet.

The council received £0.512 million in new burdens funding to assist with the cost of administering the LRSG and Business rate relief schemes.

## 34. Members' allowances

The council paid the following amounts to members of the council during the year:

| | 2020-21 £000 | **2021-22 £000** |
|---|---|---|
| Basic allowance & special responsibility allowances | **471** | **459** |
| Employers' national insurance & pension contributions paid on behalf of members | **20** | **18** |
| Travelling & subsistence allowance and reimbursements | **20** | **21** |
| Co-opted members | **1** | **2** |
| **Total** | **512** | **499** |

## 35. Officers' remuneration

The remuneration paid to the council's senior employees is as follows:

| **Post** | **Year** | **Salary** | **Returning officer fees (elections)** | **Remuneration excluding pension contributions** | **Employers' contribution to pension fund** | **Remuneration including pension contribution** |
|---|---|---|---|---|---|---|
| | | **£** | **£** | **£** | **£** | **£** |
| Chief Executive | 2021-22<br>2020-21 | 137,703<br>135,998 | 0<br>0 | 137,703<br>135,998 | 32,439<br>31,959 | 170,142<br>167,957 |
| Assistant Chief Executive & Chief Strategy Officer | 2021-22<br>2020-21 | 105,799<br>109,607 | 389<br>0 | 106,188<br>109,607 | 24,863<br>25,758 | 131,051<br>135,365 |
| Director of Corporate Services | 2021-22<br>2020-21 | 107,703<br>103,979 | 10,061<br>1,343 | 118,304<br>105,322 | 25,310<br>24,435 | 143,614<br>129,757 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Director of Neighbourhoods | 2021-22<br>2020-21 | 107,703<br>105,850 | 0<br>0 | 107,703<br>105,850 | 25,310<br>24,875 | 133,013<br>130,725 |
| Director of Adult Social Services to 31.08.2021 | 2021-22<br>2020-21 | 62,809<br>123,931 | 0<br>0 | 62,809<br>123,931 | 12,135<br>29,124 | 74,944<br>153,055 |
| Director of Adult Social Services from 01.09.2021 | 2021-22<br>2020-21 | 64,455<br>0 | 0<br>0 | 64,455<br>0 | 15,147<br>0 | 79,602<br>0 |
| Director of Regeneration | 2021-22<br>2020-21 | 115,925<br>113,931 | 0<br>0 | 115,925<br>113,931 | 27,242<br>26,774 | 143,167<br>140,705 |
| Assistant Director of Corporate Services and Monitoring Officer (i) | 2021-22<br>2020-21 | 86,242<br>36,036 | 697<br>0 | 86,939<br>36,036 | 20,267<br>8,468 | 107,206<br>44,504 |

**Notes to officers' remuneration**

| | |
|---|---|
| Note (i) | The post holder for Director of Adult Social Services changed in year, with the previous post holder leaving on 31.08.2021, being replaced by the new post holder on 01.09.2021. |
| Note (ii) | The post of Monitoring Officer was bought in house 26.10.2020. The annualised pay for 2020/21 was £83,264. |

**Other notes relating to senior employees**:

| | |
|---|---|
| Note (iii) | The post of Director of Children's Services is filled under a strategic partnership with Hampshire County Council. The remuneration details are disclosed in full by Hampshire County Council. The amount recharged to the Isle of Wight Council relating to this post in 2021-22 is £46,624 (£46,620 in 2020-21). |
| Note (iv) | The post of Director of Finance and Section 151 officer is filled under a strategic partnership with Portsmouth City Council. The remuneration details are disclosed in full by Portsmouth City Council. The amount recharged to the Isle of Wight Council relating to this post for 2021-22 is £60,500 (£60,400 in 2020-21. |
| Note (v) | The post of Director of Public Health is filled under a strategic partnership with Hampshire County Council. The remuneration details are disclosed by the Hampshire County Council. The amount recharged to the Isle of Wight Council for 2021-22 is £48,728 (£46,515 in 2020-21). |

The council's other employees (including teachers) receiving more than £50,000 remuneration for the year (excluding employer's pension contributions but including termination payments where applicable) were paid the following amounts:

| **Remuneration band** | 2020-21 | | | | **2021-22** | | | |
|---|---|---|---|---|---|---|---|---|
| | School based employees | | | | **School based employees** | | | |
| | Voluntary Aided & Foundation schools | Other schools | All other council employees | Total number of employees | **Voluntary Aided & Foundation schools** | **Other schools** | **All other council employees** | **Total number of employees** |
| £50,000 to £54,999 | 12 | 6 | 24 | 42 | **9** | **16** | **26** | **51** |
| £55,000 to £59,999 | 4 | 8 | 7 | 19 | **7** | **9** | **2** | **18** |
| £60,000 to £64,999 | 10 | 11 | 12 | 33 | **12** | **4** | **16** | **32** |
| £65,000 to £69,999 | 3 | 1 | 3 | 7 | **2** | **7** | **2** | **11** |
| £70,000 to £74,999 | 0 | 8 | 8 | 16 | **2** | **7** | **12** | **21** |
| £75,000 to £79,999 | 2 | 4 | 2 | 8 | **2** | **3** | **1** | **6** |
| £80,000 to £84,999 | 0 | 2 | 1 | 3 | **1** | **1** | **0** | **2** |
| £85,000 to £89,999 | 0 | 0 | 5 | 5 | **0** | **1** | **3** | **4** |
| £90,000 to £94,999 | 0 | 0 | 1 | 1 | **0** | **2** | **2** | **4** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| £95,000 to £99,999 | 0 | 1 | 1 | 2 | **0** | **0** | **0** | **0** |
| £100,000 to £104,999 | 0 | 0 | 0 | 0 | **0** | **0** | **0** | **0** |
| £105,000 to £109,999 | 0 | 1 | 0 | 1 | **0** | **1** | **0** | **1** |
| £110,000 to £114,999 | 0 | 1 | 0 | 1 | **0** | **0** | **0** | **0** |
| £115,000 to £119,999 | 0 | 0 | 0 | 0 | **0** | **0** | **0** | **0** |
| £120,000 to £124,999 | 1 | 0 | 0 | 1 | **0** | **0** | **0** | **0** |
| £125,000 to £129,999 | 0 | 0 | 0 | 0 | **0** | **1** | **0** | **1** |
| £130,000 to £134,999 | 0 | 0 | 0 | 0 | **0** | **0** | **0** | **0** |
| £135,000 to £139,999 | 0 | 0 | 1 | 1 | **0** | **0** | **1** | **1** |
| £140,000 to £144,999 | 0 | 0 | 0 | 0 | **0** | **0** | **0** | **0** |
| £145,000 to £149,999 | 0 | 0 | 0 | 0 | **0** | **0** | **0** | **0** |
| £150,000 to £154,999 | 0 | 0 | 0 | 0 | **0** | **0** | **0** | **0** |
| **Totals** | **32** | **43** | **65** | **140** | **35** | **52** | **65** | **152** |

## 36. Termination benefits (2020-21 Restated)

The council terminated the contracts of a number of employees in 2021-22, incurring liabilities of £0.233 million. (£0.403 million in 2020-21).

The total costs in the table below represents exit packages that have been agreed, accrued for and charged to the council's comprehensive income and expenditure statement in the respective years. The cost of exit packages includes redundancy pay, the accrued costs of added years (pension strain) and other departure costs. The numbers and costs include schools based teaching staff.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

| Exit package cost band (including special payments) | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | | Total cost of exit packages in each band | |
|---|---|---|---|---|---|---|---|---|
| | 2020-21 | **2021-22** | 2020-21 | **2021-22** | 2020-21 | **2021-22** | 2020-21 £ | **2021-22 £** |
| £0 to £20,000 | 16 | **8** | 19 | **22** | 35 | **30** | 241,125 | **207,273** |
| £20,001 to £40,000 | 1 | **1** | 7 | **0** | 8 | **1** | 161,933 | **25,673** |
| £40,001 to £60,000 | 0 | **0** | 0 | **0** | 0 | **0** | 0 | **0** |
| £100,001 to £150,000 | 0 | **0** | 0 | **0** | 0 | **0** | 0 | **0** |
| Total | 17 | **9** | 26 | **22** | 43 | **31** | 403,058 | **232,946** |

The total of termination payments made during 2021-22 has been charged to the Comprehensive Income and Expenditure Statement. The total cost of exit packages excludes £0.040 million relating to former members of staff who left the council in a previous year.

The information for 2020-21 has been restated to include Pay In Lieu of Notice and Pay in Lieu of Holiday. This has increased the cost of exit packages by £0.0125 million.

## 37. External audit costs

The council incurred the following costs in relation to the audit of the statement of accounts, certification of grant claims and statutory inspections by the council's external auditors.

| | 2020-21 £000 | **2021-22 £000** |
|---|---|---|

| | | |
|---|---|---|
| Fees payable with regard to external audit services carried out by the appointed auditor for the year (Ernst & Young LLP) | 99 | **159** |
| Additional fees payable with regard to external audit services carried out by the appointed auditor for the year (Ernst & Young LLP) paid in 2021-22 relating to 2020-21 | 38 | **15** |
| Fees payable to the appointed auditor for certification of housing benefit subsidy grant claim and return for the year (KPMG) | 8 | **8** |
| Additional fees payable to the appointed auditor for certification of housing benefit subsidy grant claim and return for the year (KPMG) paid in 2021-22 relating to 2020-21 | 8 | **11** |
| **Total of fees payable to the appointed auditors** | 153 | **193** |

## 38. Dedicated schools grant

The council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) (no 2) Regulations 2018. The Schools budget includes elements for a range of educational services provided on an council-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable are as follows:

| **Deployment of dedicated schools grant 2021-22** | **Central expenditure £000** | **Individual schools budget £000** | **Total £000** |
|---|---|---|---|
| Final DSG for 2021-22 before academy and high needs recoupment | | | **104,150** |
| Academy and high needs figure recouped for 2021-22 | | | **22,745** |
| Total DSG after academy and high needs recoupment for 2021-22 | | | **81,405** |
| Plus: Brought forward from 2020-21 | | | **0** |
| Less: Carry-forward to 2022-23 agreed in advance | | | **0** |
| Agreed initial budget distribution in 2021-22 | **15,426** | **65,979** | **81,405** |
| In-year adjustments | **0** | **28** | **28** |
| Final budget distribution for 2021-22 | **15,426** | **66,007** | **81,433** |
| Less: Actual central expenditure | **17,535** | | **17,535** |
| Less: Actual ISB deployed to schools | | **65,943** | **65,943** |
| Plus: Local authority contribution for 2021/22 | **0** | **0** | **0** |
| In-year Carry forward to 2022-23 | **(2,109)** | **64** | **(2,045)** |
| Plus: Carry-forward to 2022-23 agreed in advance | | | **0** |
| Carry-forward to 2022/23 | | | **0** |
| DSG Unusable at the end of 2020/21 | | | **(4,299)** |
| | | | |
| Addition to DSG unusable reserve at the end of 2021/22 | | | **(2,045)** |
| | | | |
| Total of DSG unusable reserve at the end of 2021/22 | | | **(6,344)** |

| | | | |
|---|---|---|---|
| | | | |
| **Net DSG position at the end of 2021/22** | | | **(6,344)** |

The final DSG for 2021-22 includes academy and high needs funding. The recoupment figure for high needs is derived from commissioned places data during 2021-22 and academy recoupment is derived from the main school funding formula that was submitted to the DfE. The final allocation for the 2021-22 early years block will be made in July 2022 using the January 2022 census figures and any adjustments to be treated as an ‘in year adjustment’ for 2022-23.

| **Deployment of dedicated schools grant 2020-21** | **Central expenditure £000** | **Individual schools budget £000** | **Total £000** |
|---|---|---|---|
| Final DSG for 2020-21 before academy and high needs recoupment | | | **97,714** |
| Academy and high needs figure recouped for 2020-21 | | | **20,588** |
| Total DSG after academy and high needs recoupment for 2020-21 | | | **77,126** |
| Plus: Brought forward from 2018-20 | | | **0** |
| Less: Carry-forward to 2021-22 agreed in advance | | | **0** |
| Agreed initial budget distribution in 2020-21 | **13,937** | **63,189** | **77,126** |
| In-year adjustments | **10** | **19** | **29** |
| Final budget distribution for 2020-21 | **13,947** | **63,208** | **77,155** |
| Less: Actual central expenditure | **15,641** | | **15,641** |
| Less: Actual ISB deployed to schools | | **63,323** | **63,323** |
| Plus: Local authority contribution for 2020-21 | **0** | **0** | **0** |
| In-year Carry forward to 2021-22 | **(2,110)** | **64** | **(1,811)** |
| Plus: Carry-forward to 2021-22 agreed in advance | | | **0** |
| Carry-forward to 2021-22 | | | **0** |
| DSG Unusable at the end of 2019-20 | | | **(2,488)** |
| | | | |
| Addition to DSG unusable reserve at the end of 2020-21 | | | **(1,811)** |
| | | | |
| Total of DSG unusable reserve at the end of 2020-21 | | | **(4,299)** |
| | | | |
| **Net DSG position at the end of 2020-21** | | | **(4,299)** |

The Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2020, SI 2020 No 1212 requires that where a local authority has a deficit in respect of its schools budget for the financial year beginning after 1st April 2020, the deficit must be shown as an unusable reserve, rather than a deficit earmarked reserve. The carry forward deficit balances at each year end are therefore classified as unusable reserves and included in note 28.

## 39. Grant income

The council credited the following grants and contributions to the comprehensive income and expenditure statement:

| Credited to taxation and non-specific grant income | 2020-21 £000 | **2021-22 £000** |
|---|---|---|
| **Revenue grants:** | | |
| Revenue Support grant | (4,519) | **(3,642)** |
| Business rates top-up grant | (13,153) | **(11,695)** |
| New Homes bonus | (666) | **(501)** |
| Small business rate relief scheme s.31 grant | (3,408) | **(3,498)** |
| Business rates expanded retail discount and nursery relief s.31 grant | (12,713) | **(5,542)** |
| Other business rate relief schemes s31 grant | (847) | **(2,336)** |
| Extended rights to free travel | (257) | **(294)** |
| Housing Benefit administration | (487) | **(425)** |
| Council tax support administration | (179) | **(173)** |
| Local Reform/Community Voices | (110) | **(110)** |
| Troubled families (core grant) | (300) | **(400)** |
| Highways PFI grant | (19,428) | **(19,428)** |
| Social care in prisons grant | (221) | **(248)** |
| Independent Living Fund grant | (149) | **(149)** |
| Staying Put grant | (94) | **(94)** |
| Adult Social Care grant | (4,324) | **(5,125)** |
| School Improvement Monitoring/Brokering | (170) | **(155)** |
| Financial Transparency LA maintained schools | 0 | **(3)** |
| Virtual School grant | (30) | **(30)** |
| Covid-19 Local authority support grant | (6,372) | **(3,879)** |
| Income guarantee s.31 grant (council tax) | (83) | **0** |
| Income guarantee s.31 grant (business rates) | (275) | **0** |
| Covid-19 Income Support grant | (4,700) | **(563)** |
| Covid-19 LCTS Support | 0 | **(1,448)** |
| Lower Tier Services Grant | 0 | **(184)** |
| **Capital grants:** | | |
| Department for Education grants | (8,648) | **(8,161)** |
| Department for Transport grants | (1,892) | **(2,878)** |
| Department for Health and Social Care grants | 0 | **(991)** |
| Other capital grants & contributions | (1,891) | **(4,212)** |
| **Total** | (84,916) | **(76,164)** |

| Credited to services | 2020-21 £000 | **2021-22 £000** |
|---|---|---|

| | | |
|---|---|---|
| Dedicated schools grant | (77,154) | **(81,432)** |
| Sixth form funding grant | (3,188) | **(3,245)** |
| Rent allowance & rent rebates subsidy | (34,580) | **(32,612)** |
| Public health grant | (7,653) | **(7,719)** |
| Pupil premium grant | (4,131) | **(4,155)** |
| COVID-19 grants | (15,617) | **(9,638)** |
| Improved Better Care Fund grant | (5,232) | **(5,998)** |
| Other revenue grants | (9,801) | **(10,154)** |
| Revenue expenditure funded by capital under statute (REFCUS): | | |
| Disabled facilities grant | (1,323) | **(1,281)** |
| Department for Education REFCUS grants | (2,236) | **(178)** |
| Other REFCUS grants | (199) | **(516)** |
| **Total** | (161,114) | **(156,928)** |

The revenue grants listed above have been included in the Comprehensive Income and Expenditure Statement. Covid-19 related grants received from the Government where the council is deemed to be acting as an agent due to the eligibility being specified by the Government amount to a further £25.1 million. This includes £0.83 million relating to the Local Restrictions Support Grants. The income and related expenditure have been excluded from the Income and Expenditure Statement.

The council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the money or property to be returned to the giver. The balances at year-end are included within current or long-term liabilities in the balance sheet and are as follows:

| **Capital grants & contributions receipts in advance** | 2020-21 £000 | **2021-22 £000** |
|---|---|---|
| Department for Education grants (DfE) | (2,310) | **(3,926)** |
| Department for Transport grants (DfT) | (4,045) | **(2,676)** |
| Department for Business, Energy & Industrial Strategy grants (BEIS) | (3,047) | **(832)** |
| Ministry for Housing, Communities & Local Government grants (MHCLG) | (1,700) | **(8,278)** |
| Other grants & contributions | (398) | **(380)** |
| **Total** | (11,500) | **(16,092)** |

| **Revenue grants & contributions receipts in advance** | 2020-21 £000 | **2021-22 £000** |
|---|---|---|
| Energy Bills Support | 0 | **(8,872)** |
| BEIS business grant funding | (20,558) | **(10,263)** |
| Business rates s.31 grants (MHCLG) | (11,657) | **0** |
| Other Grants | (1,750) | **(1,325)** |
| Section 106 contributions | (1,829) | **(1,823)** |
| **Total** | (35,794) | **(22,283)** |

The BEIS business grant funding relates to the various schemes in place during the Covid-19 lockdown periods which the council administered on behalf of BEIS.

## 40. Related parties transactions

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

Central Government
Central government has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the council operates, provides a significant element of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (eg council tax bills, housing benefits). Grants received from government departments are detailed in note 40.

Members and their family
Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2021-22 is shown in note 35.

During 2021-22, payments to the value of £13.190 million were made to organisations where members or their families had declared an interest or employment including £7.945 million to educational facilities, £3.730 million to parish and town councils and £.753 million to the NHS with whom the council transacts as part of its day to day business. The remaining £0.762 million included a payments of £0.534 million to Visit Isle of Wight which related to the levy income collected by the council on their behalf.

Full details of elected members' declarations of interests can be found on the council's website: www.iwight.com.

Officers
During 2021-22 the Director of Children's Services was provided by Hampshire County Council as part of the strategic partnership arrangement that was approved in July 2013.

The Director of Finance and S151 officer is provided by Portsmouth City Council under a partnership arrangement approved in April 2016. This officer is also a council appointed Director of Access 4/20 Management Ltd and holds various Directorships as part of his role at Portsmouth City Council.

The Director of Public Health is provided by Hampshire County Council as part of a partnership agreement from April 2018.

Further details of these arrangements are shown in note 36.

The Chief Executive is a council appointed director for Access 4/20 Management Ltd.

The Team Manager for Licencing and Business Support in Regulatory Services is a council appointed Director of Pan Management CIC.

The Director of Regeneration is a council appointed Director of Access 4/20 Management Ltd, Sandy Lane (Oxford) Management Ltd, and IWight Homes Ltd.

Other Public Bodies [subject to common control by central government]
The council has a pooled budget arrangement under section 75 of the National Health Service Act 2006 with the Isle of Wight Clinical Commissioning Group (CCG) for the Better Care Fund (BCF) and funded nursing care. The council is the host for the pooled budget and although the intention is to support better integration, the current arrangement does not provide for the sharing of any financial risk. There is no joint decision-making body and the decisions do not need to be taken with the unanimous consent of the partners. Consequently, this arrangement has not been accounted for as a joint operation under IFRS11 and the receipt of income by the council from the CCG and the subsequent reimbursement of cash by the council to the CCG has been netted out of the 2021-22 financial statements.

During 2021-22 the council continued a service level agreement with the Isle of Wight NHS Trust to provide waste management services to the Trust, as a precursor to the development and implementation of a Joint

(Council / Trust) Waste Management Service. Although the value of the current arrangement is not material, the intention to form a multi-agency service could result in the need for a more detailed declaration in the future.

The council also has a strategic partnership agreement in place with Hampshire County Council for the provision of children's services, education and skills. The council remains accountable for the provision of these services and the associated budgets. Payments of £1.3m were made to Hampshire County Council in 2021-22 under this strategic partnership agreement.

The Isle of Wight Council administers the Isle of Wight Council Pension fund which includes admitted bodies as detailed in the Isle of Wight Council Pension Fund accounts. The council charged the fund £0.522 million for expenses incurred in administering the funds.

Entities Controlled or Significantly Influenced by the Authority
Grants to other bodies of £3.66 million were made by the council during 2021-22. However, none of these grants were for material amounts and the allocation of such funding does not constitute effective influence over the financial and operating policies of those organisations.

The council holds a 2% shareholding in Cowes Yacht Haven which is the trading subsidiary of the Cowes Town Waterfront Trust Ltd. This does not give the council significant control or influence over the financial or operating decisions of the charity.

The council is also now a minority shareholder in Perpetuus Energy and with no significant control or influence. This is the subject of a more detailed disclosure in the group accounts note 42.

The council has entered into a limited liability partnership with Public Sector PLC Facilitating Ltd to maximise opportunities from the council's land and property portfolio. During 2021-22, no disposals or developments were completed although planning and consents have commenced. This is the subject of a more detailed disclosure in the group accounts note 42.

The council holds a £1 share in Pan Management Company which is a limited liability community interest company. The council has one director's position on the board. The Council made a loan to the company during 2019-20. The council had no significant control or influence over the financial or operating decisions of the company during the 2021-22 financial year.

The council also holds shares in Access 4/20 Management Ltd and Sandy Lane (Oxford) Management Ltd, both companies limited by guarantee to manage the estate and service charges related to two commercial investment properties that the council purchased in 2018-19. This is the subject of a more detailed disclosure in the group accounts note 42.

In December 2019 the council established a wholly owned subsidiary – IWight Homes Ltd with 1 Director appointed from the councils senior management team. The council will have complete control over the strategic and operational decisions of the subsidiary, and this is the subject of a more detail disclosure in the group accounts note 41.

## 41. Group accounts

The council had previously invested £1 million over 2 years under a loan agreement repayable after 9 years, in a joint venture company known as Perpetuus Tidal Energy Centre Ltd, holding 15% of the ordinary shares in the company with rights to dividends and a position on the board. In September 2020, the council agreed to authorise PTEC to raise funds required to renew consenting licences by selling up to two thirds of the council's shareholding in the company. In addition, the council's original loan term was extended for 5 years, is now repayable alongside the other loan which capitalised the company and the council released its position on the PTEC Board. Although this means that the council will be foregoing its ability to 'direct' the work of the company and also the benefit of any future dividends from its shares, the council recognised that there is no likelihood of any dividend should the project fail at this juncture. These changes were also made in the spirit of the original intent for PTEC to create jobs and investment and put the Isle of Wight at the forefront of the renewable energy agenda.

The council has also formed a limited liability partnership (PSP Isle of Wight LLP which trades as IWight Developments) with Public Sector PLC Facilitating to maximise opportunities from the council's land and property portfolio on the island, and generate capital receipts or revenue income. The council holds 50% shares in the partnership and has a right to 50% of the profits. Under accounting regulations this is categorised as a joint venture for which the council would need to prepare group accounts. The apportionment of costs from previous year spend has yet to be agreed and the future of the partnership is uncertain.

As part of the council's ownership of 4 commercial properties, the council also holds shares in Access 4/20 Management Ltd and Sandy Lane (Oxford) Management Ltd, both companies limited by guarantee set up to management the common estates and service charges for those properties. Access 4/20 Management Ltd is 100% owned by the council and therefore under accounting regulations, it is categorised as a subsidiary. The council holds 1 of 4 shares in Sandy Lane (Oxford) Management Ltd and this is therefore categorised as a joint venture. In both cases, the council would need to prepare group accounts, however this has not been necessary on materiality grounds in 2021-22 but will be considered each year and if appropriate they will be consolidated in the council's statement of accounts.

In December 2019 the council registered a limited liability company called IWight Homes Ltd as a wholly owned subsidiary of the council with 1 director appointed from the council's senior management team. No transactions have been undertaken in the 2021/22 financial year. As a wholly owned subsidiary, consolidation into the council's accounts would be required if transactions are considered to be material.

There are no other entities where the council's interest is such that it would give rise to the requirement to prepare group accounts. This position is reviewed and updated on an annual basis.

## 42. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the capital financing requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed. The CFR is analysed in the second part of this note.

| | 2020-21<br>£000 | **2021-22<br>£000** |
|---|---|---|
| Balance brought forward | 405,682 | **405,512** |
| Adjustment to opening balance (aborted capital projects) | (360) | **(0)** |
| Adjusted opening balance | 405,322 | **405,512** |
| **Capital investment:** | | |
| Property, plant and equipment | 17,343 | **22,976** |
| Intangible assets | 52 | **278** |
| Revenue expenditure funded from capital under statute | 4,220 | **2,028** |
| Highways PFI assets brought onto balance sheet | 6,016 | **2,506** |
| Finance lease assets brought onto balance sheet | 0 | **0** |
| **Sources of finance:** | | |
| Capital receipts | (2,552) | **(1,886)** |
| Government grants and other contributions | (20,784) | **(20,031)** |
| Sums set-aside from revenue: | | |
| Revenue contributions to capital | (4,105) | **(2,261)** |

| | | |
|---|---|---|
| Statutory charge to revenue | 0 | **(5,171)** |
| **Closing capital financing requirement** | 405,512 | **403,951** |
| **Explanation of movements in year** | | |
| Increase/(reduction) in underlying need to borrow (unsupported by government financial assistance) | (5,826) | **(4,067)** |
| Assets acquired under PFI contracts | 6,016 | **2,506** |
| Assets acquired under finance leases | 0 | **0** |
| **Increase/decrease in capital financing requirement** | 190 | **(1,561)** |

## 43. Leases

Council as lessee

The council has acquired vehicles, plant, furniture and equipment assets under finance leases. The rentals payable under these arrangements in 2021-22 were £0.141 million (£0.288 million in 2020-21), charged to the comprehensive income and expenditure account as £0.014 million finance costs (charged to interest payable) and £0.141 million relating to the write-down of obligations to the lessor (charged as part of the appropriation to the capital adjustment account in the movement in reserves statement). Finance lease rentals extending beyond the primary lease period are treated as contingent rent, as the future use of the asset at the inception of the lease agreement is unknown.

| Carrying amount of assets | 31 March 2021 £000 | **31 March 2022 £000** |
|---|---|---|
| Balance at 1 April | 745 | **550** |
| Additions | 0 | **0** |
| Depreciation | (195) | **(116)** |
| Balance at 31 March | 550 | **434** |

| **Liability** | **Minimum lease payments** | | **Present value of minimum lease payments** | |
|---|---|---|---|---|
| | 31 March 2021 £000 | **31 March 2022 £000** | 31 March 2021 £000 | **31 March 2022 £000** |
| Not later than one year | 140 | **140** | 105 | **112** |
| Later than one year and not later than five years | 526 | **386** | 456 | **344** |
| Later than 5 years | 0 | **0** | 0 | **0** |
| | 666 | **526** | 561 | **456** |
| Less: future finance charges | (105) | **(70)** | - | **0** |
| **Total** | 561 | **456** | 561 | **456** |

| Included in: | 31 March 2021 £000 | **31 March 2022 £000** |
|---|---|---|
| Current borrowings | 105 | **112** |
| Non-current borrowings | 456 | **344** |
| **Total** | 561 | **456** |

The fair value for the present value of minimum lease payments has been measured using significant observable inputs, being level 2 on the fair value hierarchy. The fair value at 31 March 2021 is £0.653 million based on discount contractual cash flows at the AA bond yield of the same remaining term.

Operating leases – Council as lessee

The council has the right to use vehicles, plant, furniture and equipment assets financed under the terms of operating leases. The rentals payable under these arrangements in 2021-22 were £1.345 million (£1.222 million in 2020-21), charged to the comprehensive income and expenditure statement. In addition to vehicles, plant, furniture and equipment, these leases also include properties for homelessness accommodation which are leased for durations of between three and five years from private landlords. The council receives income towards the costs of these operating leases from housing benefits and other contributions. Such contributions credited to the comprehensive income and expenditure statement in 2021-22 amounted to £0.897 million (£0.908 million in 2020-21).

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

| **Leases expiring** | 31 March 2021 £000 | **31 March 2022 £000** |
|---|---|---|
| Not later than one year | 513 | **422** |
| Later than one year and not later than five years | 699 | **413** |
| Later than five years | 2,689 | **2,616** |
| **Total** | 3,901 | **3,451** |

The expenditure charged to the comprehensive income and expenditure statement during the year in relation to these leases was:

| | 2020-21 £000 | **2021-22 £000** |
|---|---|---|
| Minimum lease payments | 1,177 | **1,291** |
| Contingent rents | 45 | **54** |
| Total | 1,222 | **1,345** |
| Sub-lease income receivable | (908) | **(897)** |
| **Total** | 314 | **448** |

Operating leases - Council as lessor

The council has leased out property to third parties under the terms of operating leases. The rentals received under the arrangements in 2021-22 was £3.089 million (£3.205 million in 2020-21), credited to the comprehensive income and expenditure statement. Lease agreements on a weekly, monthly and annual basis are excluded from minimum lease payments.

The council leases out property and equipment under operating leases for the following purposes:-

- For rental income received and capital appreciation from commercial property
- For the provision of community services, such as sports facilities, tourism services and community centres
- For economic development purposes to provide suitable affordable accommodation for local businesses
- For housing purposes through a shared ownership scheme.

The future minimum lease payments receivable under non-cancellable leases in future years are:

| | **Minimum lease payments** | |
|---|---|---|
| | 31 March 2021 £000 | **31 March 2022 £000** |

| | | |
|---|---:|---:|
| Not later than one year | 2,621 | **2,583** |
| Later than one year and not later than five years | 7,947 | **6,958** |
| Later than five years | 20,284 | **19,566** |
| **Total** | 30,852 | **29,107** |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2021-22 £0.153 million in contingent rents were received by the council (2020-21 £0.110 million).

## 44. Private finance initiatives and similar contracts

Highways PFI

The Highways PFI contract commenced on 1 April 2013 and is a 25 year project. This project involves the comprehensive upgrade of the Island's road, footway and cycleway network, together with associated assets, over a 7 year Core Investment Period and then maintaining them over the remaining life of the contract. The PFI is financed through a government grant and the council also makes an annual contribution. The contract is with Island Roads Services Ltd, comprised of VINCI Concessions and Meridiam Investments, and the sub-contract is with Ringway Island Roads Ltd.

Within the highways PFI contract, the council has acquired non-current assets under a finance lease agreement. The rentals payable under these arrangements in 2021-22 were £12.437 million (£9.832 million in 2020-21) charged to the comprehensive income and expenditure statement as £8.883 million finance costs (charged to interest payable) and £3.553 million relating to the write-down of obligations to the lessor which has been charged as part of the appropriation to the capital adjustment account in the movement in reserve statement. The fair value of services is calculated as £10.852 million (£10.426 million in 2020-21) and is charged to the Infrastructure and Transport service line in the comprehensive income and expenditure statement. Government grant of £19.428 million (£19.428 million in 2020-21) has been credited to taxation and non-specific grant income in the comprehensive income and expenditure statement.

The operator has the right to use highway assets defined as the project network. These include roads, footways, bridges and street lighting. The net book value of these assets at 31 March 2021 is £118.781 million and these are classified as service concession assets. The operator will hand back the project network in the condition defined by the council at expiry of contract.

As part of the services element of the contract, the operator will operate and maintain the project network, which includes maintenance on network to defined performance standards, street cleansing, grass cutting, winter maintenance and CCTV monitoring. A mechanism exists within the contract for the council to share in any efficiency gains and certain income generating activities undertaken by the service provider.

Within the provisions of the contract the council will notify the operator if it wishes to retender for the provision of services and/or transfer all it rights, title and interest in assets back to the council. Termination options are defined as voluntary termination by the council, service provider default, termination by the service provider, termination for corrupt gifts and fraud, or following a force majeure event. A compensation mechanism exists within the contract to deal with the various termination scenarios and this is based on the SOPC4 (standardisation of PFI contracts) wording.

The following values of assets are held under finance leases by the council, accounted for as part of property, plant and equipment:

| | 2020-21 £000 | **2021-22 £000** |
|---|---:|---:|
| Value at 1 April | 129,866 | **125,871** |
| Additions | 6,016 | **2,506** |
| Reclassifications | 12 | **0** |
| Revaluation gains | 0 | **0** |
| Depreciation | (9,196) | **(9,456)** |

| | | |
|---|---|---|
| Derecognition and disposals | (827) | **(140)** |
| **Total assets at 31 March** | 125,871 | **118,781** |

The movement in the finance rental at 31 March accounted for as short and long-term liabilities are as follows:

| | 2020-21 £000 | **2021-22 £000** |
|---|---|---|
| Value at 1 April | 101,138 | **100,358** |
| Finance additions | 0 | **0** |
| Finance charge | 9,052 | **8,883** |
| Finance lease rental | (9,832) | **(12,436)** |
| **Finance lease outstanding at 31 March** | 100,358 | **96,805** |

The finance lease outstanding of £96.804 million has been apportioned into short and long-term liabilities on the basis of the age profile of the repayment of liability shown below.

Outstanding obligations to make payments under the Highways PFI scheme at 31 March 2022, separated into repayments of liability, interest, service charges, lifecycle replacement costs and contingent rental using the current rate of RPI assumed in the contract are as follows:

| | **Repayment of liability £000** | **Interest £000** | **Service charges £000** | **Lifecycle replacement costs £000** | **Contingent rental £000** | **Total £000** |
|---|---|---|---|---|---|---|
| Not later than 1 year | 4,691 | 8,535 | 11,728 | 1,702 | 1,239 | **27,895** |
| Payable within 2 to 5 years | 21,480 | 29,632 | 51,107 | 8,031 | 6,144 | **116,394** |
| Payable within 6 to 10 years | 28,690 | 25,336 | 68,301 | 30,283 | 4,631 | **157,241** |
| Payable within 11 to 15 years | 30,975 | 12,857 | 76,440 | 53,138 | (1,511) | **171,898** |
| Payable within 16 to 20 years | 10,969 | 623 | 11,992 | 10,403 | 2,317 | **36,304** |
| **Total** | **96,805** | **76,983** | **219,568** | **103,557** | **12,820** | **509,733** |

The fair value for the repayment of liability has been measured using significant observable inputs, being level 2 on the fair value hierarchy. The fair value at 31 March 2022 is £142.702 million based on discount contractual cash flows at the AA bond yield of the same remaining term.

## 45. Revaluation losses

During 2021-22, the council has recognised revaluation losses of £4.235 million in relation to property, plant and equipment. The most significant losses relate to building assets at Binstead Primary School (£2.934 million), Barton Primary School (£1.02 million) and Godshill Primary School (£0.422 million).

Asset valuations are based upon a number of factors such as the condition of buildings, likely useful life and income generation estimates from the use of land-based assets. The recoverable amount of these assets has been reduced to their current value as estimated by a professional valuer. This is based on current value in existing use to the council where there is an active market. Where there is no active market for assets, such as schools, the valuation is based on depreciated replacement cost. As there were no balances of revaluation gains in the revaluation reserve for assets values reduced when revalued, the resultant revaluation losses have been charged to the appropriate service line in the comprehensive income and expenditure statement and reversed out through the movement in reserves statement.

## 46. Pension schemes accounted for as defined contribution schemes

Teachers employed by the authority are members of the Teachers' Pension Scheme, administered by the

Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2021-22, the council paid £6.738 million to teachers' pensions in respect of teachers' retirement benefits. The employers' contribution rate was 23.68% of pensionable pay (2020-21 £6.620 million with a contribution rate of 23.68%). There were no contributions remaining payable at year-end.

The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are accounted for on a defined benefit basis and detailed in note 48.

Public health staff who had access to the NHS Pension Scheme at the point of transfer to the council from the primary care trusts (PCTs) on 1 April 2013 retained access to that scheme. The NHS pension scheme is an unfunded, defined benefit scheme that covers NHS employers and is a multi-employer defined benefit scheme. In the NHS, the scheme is accounted for as if it were a defined contribution scheme. The council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2021-22, the council paid £0.020 million (2020-21 £0.023 million) to NHS pensions in respect of retirement benefits, representing 16.88% of pensionable pay.

## 47. Defined benefit pension schemes

Participation in pension schemes

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

The authority participates in the Local Government Pension Scheme is administered by the council and is a funded defined benefit scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

With effect from 1 April 2021 the responsibility for the Fire-fighters' Pension Scheme was transferred to the Hampshire and Isle of Wight Fire and Rescue Service.

Transactions relating to post-employment benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge made against the council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the general fund via the movement in reserves statement. The transactions below have been made in the comprehensive income and expenditure statement and the general fund balance via the movement in reserves statement during the year.

| | **Local Government Pension Scheme £000** | |
|---|---|---|
| | 2020-21 | **2021-22** |
| **Comprehensive Income & Expenditure Statement** | | |
| **Cost of services:** | | |
| Current service cost | (19,746) | **(30,871)** |

| | | |
|---|---|---|
| Past service costs (including curtailments) | (44) | **(56)** |
| Gain/loss from settlements | 0 | **0** |
| **Financing and investment income and expenditure** | | |
| Interest cost on defined benefit liability | (15,041) | **(17,014)** |
| Interest income on plan assets | 11,165 | **11,517** |
| Movement on top-up grant repayable (to)/from Government | - | |
| **Total post-employment benefit charged to the surplus or deficit on the provision of services** | (23,666) | **(36,424)** |
| **Other post-employment benefit charged to the comprehensive income and expenditure statement** | | |
| Re-measurement of the net defined benefit liability comprising: | | |
| Return on plan assets (excluding the amount included in the net interest expense) | 81,963 | **25,041** |
| Actuarial gains and losses arising on changes in demographic assumptions | (11,187) | **4,383** |
| Actuarial gains and losses arising on changes in financial assumptions | (169,553) | **57,104** |
| Other experience gains and losses | 6,762 | **(1,306)** |
| **Total post-employment benefit charged to the comprehensive income and expenditure statement** | (115,681) | **48,798** |
| **Movement in reserves statement:** | | |
| Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the Code | 8,946 | **21,510** |
| Movement on top-up grant repayable to/(from) Government | - | |
| **Actual amount charged against the general fund balance for pensions in the year:** | | |
| Employers' contributions payable to the scheme (including unfunded benefits) | 14,720 | **14,914** |
| Retirement benefits payable to pensioners (net of member contributions) | - | **-** |

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the council's obligation in respect of its defined benefit plan is as follows:

| | **Local Government Pension Scheme £000** | |
|---|---|---|
| | 2020-21 | **2021-22** |
| Present value of the defined benefit obligation | (844,830) | **(814,675)** |
| Fair value of plan assets | 577,746 | **611,303** |
| **Net liability arising from defined benefit obligation** | (267,084) | **(203,372)** |

Reconciliation of fair value of the scheme assets:

| | **Local Government Pension Scheme £000** | |
|---|---|---|
| | 2020-21 | **2021-22** |
| Opening fair value of scheme assets | 486,901 | **577,745** |
| Interest income | 11,165 | **11,517** |

| | | |
|---|---|---|
| Re-measurement gains/loss: | | |
| Return on plan assets excluding the amount included in the net interest expense | 81,963 | **25,041** |
| Contributions by employer | 13,302 | **13,528** |
| Contributions from plan participants | 3,513 | **3,584** |
| Contributions in respect of unfunded benefits paid | 1,418 | **1,386** |
| Benefits paid | (19,099) | **(20,112)** |
| Unfunded benefits paid | (1,418) | **(1,386)** |
| Contributions towards injury pensions | - | **-** |
| Injury award expenditure | - | **-** |
| **Closing fair value of scheme assets** | 577,745 | **611,303** |

Reconciliation of present value of the scheme liabilities (defined benefit obligation)

| | **Funded liabilities: Local Government Pension Scheme £000** | |
|---|---|---|
| | 2020-21 | **2021-22** |
| Opening balance at 1 April | (653,024) | **(844,829)** |
| Current service cost | (19,746) | **(30,871)** |
| Interest cost | (15,041) | **(17,014)** |
| Contributions by scheme participants | (3,513) | **(3,584)** |
| Re-measurement gains/loss: | | |
| Actuarial gains/losses arising from changes in demographic assumptions | (11,187) | **4,383** |
| Actuarial gains/losses arising from changes in financial assumptions | (169,553) | **57,104** |
| Other experience gains/loss | 6,762 | **(1,306)** |
| Past service costs (including curtailments) | (44) | **(56)** |
| Benefits paid | 19,099 | **20,112** |
| Unfunded benefits paid | 1,418 | **1,386** |
| **Closing fair value of scheme liabilities** | (844,829) | **(814,675)** |

Local Government Pension Scheme assets comprised:

| | **Fair value of scheme assets** | | | |
|---|---|---|---|---|
| | 2020-21 | | **2021-22** | |
| | Quoted prices | Percentage of total assets | **Quoted prices** | **Percentage of total assets** |
| | £000 | % | **£000** | **%** |
| **In active markets** | | | | |
| Equity securities: | | | | |
| Consumer | 0.0 | 0.0% | 0.0 | 0.0% |
| Energy & Utilities | 0.0 | 0.0% | 0.0 | 0.0% |
| Financial Institutions | 0.0 | 0.0% | 0.0 | 0.0% |

| | | | | |
|---|---|---|---|---|
| Health & Care | 0.0 | 0.0% | 0.0 | 0.0% |
| Information Technology | 0.0 | 0.0% | 0.0 | 0.0% |
| Other | 0.0 | 0.0% | 0.0 | 0.0% |
| | | | | |
| Real Estate | 31,126.9 | 5.4% | **32,934.9** | **5.0%** |
| | | | | |
| Investment Funds & Unit Trusts: | | | | |
| Equities | 326,828.6 | 56.6% | **345,812.3** | **57%** |
| Bonds | 117,091.3 | 20.3% | **123,892.4** | **20%** |
| Other | 102,698.2 | 17.7% | **108,663.4** | **18%** |
| **Not in active markets** | | | | |
| Cash and cash equivalents | 0.0 | 0.0% | **0** | **0.0%** |
| **Total assets** | 577,745.0 | 100.0% | **611,303** | **100%** |

Basis for estimating assets and liabilities

Liabilities have been assessed on the actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Pension fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the Local Government Scheme being based on the latest full valuation of the scheme as at 31 March 2019.

The significant assumptions used the actuary have been:

| | **Local Government Pension Scheme** | |
|---|---|---|
| | 2020-21 | **2021-22** |
| Mortality assumptions: (age 65 for Local Government Scheme): | | |
| Longevity for current pensioners (years): | | |
| Men | 21.9 | **21.7** |
| Women | 24.2 | **24.0** |
| Longevity for future pensioners (years): | | |
| Men | 22.9 | **22.6** |
| Women | 25.9 | **25.7** |
| Pension increase rate (CPI) | 2.9% | **3.2%** |
| Market derived RPI | 3.4% | **3.7%** |
| Rate of increase in salaries | 3.7% | **4.0%** |
| Rate for discounting scheme liabilities | 2.0% | **2.7%** |
| Commutation assumptions: | | |
| Take-up of option to convert annual pension into retirement lump sum – pre April 2008 service | 25% | **25%** |
| Take-up of option to convert annual pension into retirement lump sum – post April 2008 service | 63% | **63%** |
| Take-up of option to convert annual pension into retirement lump sum | - | **-** |

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

| Local Government Pension Scheme | Impact on the defined benefit obligation in the scheme | |
|---|---|---|
| **Change in assumptions at 31 March 2022** | **Approximate % increase to employer liability** | **Approximate monetary amount** |
| | **%** | **£000** |
| 0.1% decrease in real discount rate | 2 | 15,604 |
| 0.1% increase in the salary increase rate | 0 | 1,207 |
| 0.1% increase in the pension increase rate | 2 | 14,280 |

A one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by between 3% to 5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (ie. if improvements to survival rates predominately apply at younger or older ages).

Impact on the council's cash flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% of the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2022.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2023 is £13.410 million

The weighted average duration of the defined benefit obligation for scheme members is shown below:

| | Local Government Pension Scheme | |
|---|---|---|
| | **Liability Split** | |
| | **£000** | **%** |
| Active members | 326,936.000 | 41.3% |
| Deferred members | 183,650,000 | 23.2% |
| Pensioner members | 280,376,000 | 35.4% |
| **Total** | **790,962,000** | **100.0%** |

Further details relating to the Isle of Wight Council Pension Fund are contained within the Pension Fund section of these accounts.

## 48. Contingent liabilities

**Former council housing stock**
The council has indemnified the South Wight Housing Association (now part of the Southern Housing Group) in respect of the cost of any defects that would have led to a reduction in the transfer valuation of the former South Wight Borough council housing stock in 1990, had a full survey been made on an individual property basis. The potential liability has not been quantified, but there is a diminishing probability of a claim against the council due to the time elapsed since the transfer.

## 49. Contingent asset

**Bluebell Meadows**
Under the terms of the development agreement between the council and Barratt Homes relating to residential land at Newport, Pan Estate (Bluebell Meadows) a guaranteed minimum payment of £4.7m at the end of the development was agreed in 2011. This calculation was based upon building costs and number of units built and is dependent on Barratts completing this development. Subsequent to this agreement the council and Barratt Homes are in discussions to transfer a number of units on this development in lieu of the guaranteed minimum payment.

The guaranteed minimum payment has not been recognised on the balance sheet as completion of the development is not wholly within the control of the council.

## 50. Trust funds and other balances

The council administers a number of trust funds and balances on behalf of others which are not included in the balance sheet. These include cash held in safekeeping for children in care and amenity funds set up to provide facilities at particular establishments from the proceeds of fund raising and bequests. The main trust funds are as follows:

- The Brenda James Trust Fund, which was established with the object of the advancement of music education on the Isle of Wight for the benefit of pupils and young musicians, has a balance of £0.0033 million at 31 March 2022 (£0.035 million on 31 March 2021).
- The charity of Tom Woolgar, which was established in 1929 to give relief to the poor and aged in the Borough of Newport, has a balance of £0.082 million at 31 March 2022 (£0.073 million on 31 March 2021). This fund is administered by Newport and Carisbrooke Community Council on behalf of the Isle of Wight Council.

| | 31 March 2021 | **31 March 2022** |
|---|---|---|
| | £000s | **£000s** |
| Trust Funds etc | 108 | **115** |
| Cash in Safekeeping | 2 | **0.5** |
| Amenity Funds | 33 | **31.5** |
| Total | 143 | **147** |

## 51. Reclassification restatement

Segmental Reporting in the Comprehensive Income and Expenditure Statement (and associated changes)

These financial statements are prepared in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting (the Code). The Code's segmental reporting requirements for the comprehensive income and expenditure statement requires that the cost of services be presented in a manner consistent with how the council manages and monitors financial performance locally. For the Isle of Wight Council financial performance is managed, monitored and reported by portfolio responsibilities. Following the May 2021 local council elections these portfolio responsibilities were changed to the extent that valid comparisons with the prior year figures cannot be made.

In addition, the functions of the Isle of Wight Fire and Rescue Service were transferred on 1 April 2021 to the Hampshire and Isle of Wight Fire and Rescue Authority. The net cost figure in 2020-21 therefore has no equivalent net cost in 2021-22.

In accordance with the requirements of IAS1 Presentation of Financial Statements, the 2020-21 comparators in the comprehensive income and expenditure statement have been restated on the revised portfolio reporting basis. Additionally, the net cost of the Fire and Rescue Service is shown separately below the continuing services line.

| Previous portfolio reporting structure (as reported in the 2020-21 Statement of Accounts) | 2020-21 Net Expenditure £000s | Revised portfolio reporting structure | 2020-21 Net Expenditure £000s |
|---|---|---|---|
| Adult Social Care, Public health & Housing Needs | 51,499 | Adult Social Care & Public Health | 49,146 |
| Children's Services, Education & Skills | 32,502 | Children's Services, Education & Lifelong Skills | 32,502 |
| Community Safety & Public protection | 9,223 | Community Protection, Digital Transformation, Housing Provision & Housing Needs | 12,334 |
| Environment & Heritage | 7,280 | Environment, Heritage & Waste Management | 8,849 |
| Infrastructure & Transport | 24,053 | Highways PFI, Transport & Infrastructure | 24,216 |
| Leader & Strategic Partnerships | 906 | Leader & Strategic Partnerships | 906 |
| Planning & Housing Renewal | 1,226 | Planning & Community Engagement | 868 |
| Procurement, Projects & Forward Planning | 4,715 | Regeneration, Business Development & Tourism | (1,884) |
| Regeneration & Business Development | (4,679) | Strategic Finance, Corporate Resources & Transformational Change | 10,780 |
| Resources | 16,728 | | |
| | | **Net cost of continuing services** | 137,717 |
| | | Fire & Rescue transferred to Hampshire & Isle of Wight Fire & Rescue Authority | 5,736 |
| **Net cost of services** | **143,453** | **Net Cost of services** | **143,453** |

The 2020-21 comparative figures in the Expenditure and Funding Analysis and the associated note 7A have also been restated. These figures are contained within the restated Comprehensive Income and Expenditure Statement above.

The Segmental Income note 7B has been restated as follows:

| Previous portfolio reporting structure (as reported in the 2020-21 Statement of Accounts) | 2020-21 Income from Services £000s | Revised portfolio reporting structure | 2020-21 Income from Services £000s |
|---|---|---|---|
| Adult Social Care, Public health & Housing Needs | (20,515) | Adult Social Care & Public health | (19,317) |
| Children's Services, Education & Skills | (3,694) | Children's Services, Education & Lifelong Skills | (3,694) |
| Community Safety & Public protection | (2,626) | Community Protection, Digital Transformation & Housing | (3,697) |
| Environment & Heritage | (1,862) | Environment, Heritage & Waste Management | (2,365) |

| | | | |
|---|---|---|---|
| Infrastructure & Transport | (5,256) | Highways PFI, Transport & Infrastructure | (5,261) |
| Leader & Strategic Partnerships | (17) | Leader & Strategic Partnerships | (17) |
| Planning & Housing Renewal | (1,496) | Planning & Community Engagement | (1,487) |
| Procurement, Projects & Forward Planning | (1,091) | Regeneration & Business Development | (7,390) |
| Regeneration & Business Development | (6,813) | Strategic Finance, Corporate Resources & Transformational Change | (4,639) |
| Resources | (4,659) | | |
| | | **Income from continuing services** | **(47,867)** |
| | | Fire & Rescue transferred to Hampshire & Isle of Wight Fire & Rescue Authority | (162) |
| **Total income analysed on a segmental basis** | **(48,029)** | **Total income analysed on a segmental basis** | **(48,029)** |

There are no implications for the general fund or any other reserves arising from the revised portfolio changes. The balance sheet and cash flow statement are also unaffected.

Property, Plant and Equipment with a net book value of £12.875 million was transferred to the Hampshire and Isle of Wight Fire and Rescue Authority on 1st April 2021. This reduction in asset values was offset by corresponding entries in the Revaluation Reserve and Capital Adjustment Account in the balance sheet.

The fire-fighters' pension reserve of £93.700 million, which is a non-usable reserve in deficit, was also transferred to the Hampshire and Isle of Wight Fire and Rescue Authority on 1st April 2021.This was offset by a corresponding reduction in long-term liabilities in the balance sheet.

Transfers to the Hampshire and Isle of Wight Fire and Rescue Authority have also been made in respect of the appropriate share as at 31 March 2021 of the council's general fund (£0.523 million) and earmarked reserves (£0.459 million). This has reduced the usable reserves in the balance sheet.

All of the entries relating to the transfer of the fire and rescue service impacting on the balance sheet have been accounted for as in-year adjustments and not prior period restatements.

## 52. Authorisation of accounts for issue

The Director of Finance and Section 151 officer authorised the draft financial statements for issue on 29 July 2022 and then re-authorised them following completion of the audit on xx March 2023

# THE COLLECTION FUND

The Collection fund is an agent’s statement that reflects the statutory obligation of billing authorities to maintain a separate Collection fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of council tax and business rates and the distribution to the precepting bodies and central government.

The council has a statutory requirement to operate a collection fund as a separate account to the general fund. The purpose of the collection fund is to separately identify the income and expenditure relating to council tax and business rates. The administrative costs associated with the collection process are charged to the general fund.

The CIPFA code of practice stipulates that a collection fund income and expenditure account is included in the council’s accounts. The collection fund balance sheet is incorporated into the council’s balance sheet, but shows only the council’s proportionate share of the relevant balances.

| Collection Fund 2021-22 | Business Rates | Council Tax | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Income** | | | |
| Council Tax receivable (note CF3) | | **(113,231)** | **(113,231)** |
| Business rates receivable (note CF1) | **(27,310)** | | **(27,310)** |
| **Total income** | **(27,310)** | **(113,231)** | **(140,541)** |
| **Apportionment of Previous Year Deficit (based on January 2021 estimate)** | | | |
| Central Government | **(12,473)** | | **(12,473)** |
| Isle of Wight Council | **(12,444)** | **(1,102)** | **(13,546)** |
| Police & Crime Commissioner | | **(138)** | **(138)** |
| Hampshire & Isle of Wight Fire & Rescue Authority | **(252)** | **(41)** | **(293)** |
| | **(25,169)** | **(1,281)** | **(26,450)** |
| **Precepts, Demands and Shares:** | | | |
| Central Government (note CF1) | **19,936** | | **19,936** |
| Isle of Wight Council (notes CF1 & CF3) | **19,538** | **94,581** | **114,119** |
| Police & Crime Commissioner (note CF3) | | **12,066** | **12,066** |
| Hampshire & Isle of Wight Fire & Rescue Authority | **399** | **3,752** | **4,151** |
| | **39,873** | **110,399** | **150,272** |
| **Charges to the Collection Fund:** | | | |
| Write-offs of uncollectable amounts | **188** | **333** | **521** |
| Net (decrease)/increase in Bad Debt Allowance | **(356)** | **1,872** | **1,516** |
| Net increase in Provision for appeals (note CF6) | **(945)** | | **(945)** |
| Cost of Collection | **268** | | **268** |
| Renewable energy projects | **387** | | **387** |
| Council tax section 13A discretionary relief | | **(81)** | **(81)** |
| | **(458)** | **2,124** | **1,666** |
| **(Surplus)/Deficit arising during the year** | **(13,064)** | **(1,989)** | **(15,053)** |
| (Surplus)/Deficit brought forward at 1 April | **25,991** | **2,295** | **28,286** |
| **(Surplus)/Deficit carried forward at 31 March (notes CF4 & CF5a)** | **12,927** | **306** | **13,233** |
| **(Surplus)/Deficit allocated to:** | | | |
| Isle of Wight Council | **6,594** | **264** | **6,858** |
| Central Government | **6,464** | | **6,464** |
| Police and Crime Commissioner | | **32** | **32** |
| Hampshire & Isle of Wight Fire & Rescue Authority | **(131)** | **10** | **(121)** |
| **Total** | **12,927** | **306** | **13,233** |

| Collection Fund 2020-21 (comparative year) | Business Rates | Council Tax | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Income** | | | |
| Council Tax receivable (note CF3) | | (105,363) | (105,363) |
| Business rates receivable (note CF1) | (16,346) | | (16,346) |
| **Total income** | (16,346) | (105,363) | (121,709) |
| **Apportionment of Previous Year Surplus (based on January 2020 estimate)** | | | |
| Central Government | 29 | | 29 |
| Isle of Wight Council | 375 | 220 | 595 |
| Police & Crime Commissioner | | 26 | 26 |
| | 404 | 246 | 650 |
| **Precepts, Demands and Shares:** | | | |
| Central Government (note CF1) | 19,517 | | 19,517 |
| Isle of Wight Council (notes CF1 & CF3) | 19,517 | 94,437 | 113,954 |
| Police & Crime Commissioner (note CF3) | | 11,386 | 11,386 |
| | 39,034 | 105,823 | 144,857 |
| **Charges to the Collection Fund:** | | | |
| Write-offs of uncollectable amounts | 237 | 316 | 553 |
| Net (decrease)/increase in Bad Debt Allowance | 925 | 1,929 | 2,854 |
| Net increase in Provision for appeals (note CF6) | 1,101 | | 1,101 |
| Cost of Collection | 266 | | 266 |
| Renewable energy projects | 329 | | 329 |
| Council tax section 13A discretionary relief | | (1,112) | (1,112) |
| | 2,858 | 1,133 | 3,991 |
| **(Surplus)/Deficit arising during the year** | 25,950 | 1,839 | 27,789 |
| (Surplus)/Deficit brought forward at 1 April | 41 | 456 | 497 |
| **(Surplus)/Deficit carried forward at 31 March (notes CF4 & CF5a)** | 25,991 | 2,295 | 28,286 |
| **Allocated to:** | | | |
| Isle of Wight Council | 13,107 | 2,048 | 15,155 |
| Central Government | 12,884 | | 12,884 |
| Police and Crime Commissioner | | 247 | 247 |
| **Total** | 25,991 | 2,295 | 28,286 |

## Notes to the collection fund

### CF1. Business Rates

The council collects business rates for its area based on rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by central government.

The administration of business rates changed in 2013-14 following the introduction of the business rates retention scheme which aims to give councils a greater incentive to grow businesses, but also increases the financial risk due to volatility and non-collection. Instead of paying business rates to the central pool, local authorities retain a proportion of the total collectable rate due. For 2020-21 the Isle of Wight Council's share was 50%, with the other 50% paid to central government as preceptor. For 2021-22 and following the creation of the Hampshire and Isle of Wight Fire and Rescue Authority on 1 April 2021, the new fire authority has been allocated a 1% share, with the council's share reducing to 49% and the central government share being 50%.

Business rates income since 2017-18 has been based on the 2017 valuation list which superseded the 2010 valuation list on 1 April 2017. The total of business rates payable for 2021-22 was estimated before the start of the financial year as £39.873 million (£39.034 million in 2020-21). This is shared between the council (£19.538 million), the Hampshire and Isle of Wight Fire and Rescue Authority (£0.399 million) and central government (£19.936 million) and charged to the collection fund in year.

When the scheme was introduced, central government set a baseline level for each authority identifying the expected level of retained business rates and a top-up or tariff amount to ensure that all authorities receive their baseline amounts. Tariffs due from authorities payable to central government are used to finance the top-ups to those authorities who did not achieve their targeted baseline funding. The Isle of Wight Council received a top-up grant of £11.695 million in 2021-22 (£13.153 million in 2020-21) which is credited to the general fund (see note 40). The increase in the top-up grant is due to the funding changes resulting from the reduction in the retention rate.

The business rates collection fund deficit for 2021-22 is much smaller than in previous years. This is primarily as a result of businesses being awarded expanded retail and nursery reliefs in 2020-21 totalling £10.659 million (£24.447 million in 2020-21) as part of the Governments response to the Covid-19 pandemic.

The reliefs effectively reduce the net amount the council can collect from businesses. The total income from business ratepayers collectable in 2021-22 was £27.098 million (£16.164 million in 2020-21). As the precept amounts cannot be changed the result is a considerable deficit. For 2020-21 such large losses were funded by the Government through section 31 grants and are credited to the council's general fund especially in the case. In respect of 2021-22 there has been a significant decrease in Section 31 grants compared to 2020-21 indicating that the Government believes businesses require less support and a belief that the Council would collect more Rateable Income from businesses.

In addition to the management of business rates, authorities are required to finance appeals made in respect of rateable values as defined by the VOA. As such, authorities are required to make a provision in respect of outstanding appeals at 31 March 2022. In addition to appeals made on the 2017 valuation list, there are also outstanding appeals on the 2010 valuation list. A successful appeal on the 2010 valuation list is likely to result in a backdated adjustment for any overpayment due. The total provision charged to the collection fund at 31 March 2022 is £8.148 million (£9.092 million at 31 March 2021). This amount is included in short-term provisions in the balance sheet (note CF6).

The total business rate rateable value at 31 March 2022 is £112.048 million (111.801 million at 31 March 2021). The business rate multiplier for 2021-22 was frozen at the 2020-21 level and is 51.2p (51.2p in 2020-21). A reduced multiplier of 49.9p (49.9p in 2020-21) is applicable where there is eligibility for small business rate relief.

The gross yield for the year is £55.574 million (£55.666 million in 2020-21) and the net yield was £27.310 million (£16.346 million in 2020-21). Several nationally defined adjustments and reliefs contribute towards this reduction as shown below:-

| | 2020-21 | | **2021-22** | |
|---|---|---|---|---|
| | £000 | £000 | **£000** | **£000** |

| | | | | |
|---|---|---|---|---|
| Gross Business rate yield at 31 March | | 55,666 | | **55,574** |
| Less:- | | | | |
| Mandatory/discretionary relief granted | (28,521) | | **(16,975)** | |
| Empty rate relief | (1,199) | | **(1,273)** | |
| Small Business Rate relief | (9,600) | | **(10,016)** | |
| | | (39,320) | | **(28,264)** |
| **Net Business rate yield at 31 March** | | 16,346 | | **27,310** |

**CF2.** **Council tax**

Council tax derives from charges raised according to the value of residential properties, which have been classified into nine valuations bands (A to H). Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the council for the forthcoming year and dividing this by the council tax base, which is the equivalent number of Band D properties.

The council tax base for 2021-22 was 53,279.6 (53,842.7 in 2020-21). The reduction in the tax base is principally due to an anticipated increase in the number of local council tax support scheme discounts arising the economic consequences of the Covid-19 pandemic.

The following details the number of properties in each valuation band of the tax base:

| Band | Relevant Proportion | Chargeable dwellings (net of council tax support scheme) | Band D equivalents | Chargeable dwellings (net of council tax support scheme) | Band D equivalents |
|---|---|---|---|---|---|
| | | 2020-21 | | **2021-22** | |
| Band A (disabled) | 5/9 | 7.4 | 4.1 | **7.0** | **3.9** |
| Band A | 6/9 | 6,669.6 | 4,446.4 | **6,555.2** | **4,370.1** |
| Band B | 7/9 | 13,841.0 | 10,765.2 | **13,630.4** | **10,601.4** |
| Band C | 8/9 | 14,545.7 | 12,929.5 | **14,465.0** | **12,857.8** |
| Band D | 9/9 | 11,698.9 | 11,698.9 | **11,586.6** | **11,586.6** |
| Band E | 11/9 | 6,468.2 | 7,905.6 | **6,455.0** | **7,889.4** |
| Band F | 13/9 | 2,946.3 | 4,255.8 | **2,922.3** | **4,221.1** |
| Band G | 15/9 | 1,410.6 | 2,351.0 | **1,404.3** | **2,340.5** |
| Band H | 18/9 | 111.5 | 223.0 | **110.1** | **220.2** |
| **Total** | | 57,699.2 | 54,579.5 | **57,135.9** | **54,091.0** |
| Less reduction for bad debts & valuation changes | | | (736.8) | | **(811.4)** |
| Council tax base | | | 53,842.7 | | **53,279.6** |
| Council tax per band D property (£) | | | 1,663.05 | | **1,680.82** |
| Isle of Wight Council: Council tax precept (£000) | | | 89,543 | | **89,553** |

**CF3. Precepts made on the fund (Council tax)**

| | 2020-21 | | **2021-22** | |
|---|---|---|---|---|
| | £000 | £000 | **£000** | **£000** |
| Isle of Wight Council: Council tax requirement (note CF2) | 89,543 | | **89,553** | |
| Parish & Town Council precepts | 4,894 | | **5,028** | |
| Isle of Wight Council precept (including Parish & Town Councils) | | 94,437 | | **94,581** |
| Share of estimated collection fund surplus/(deficit) at 31 March in previous year | | 220 | | **(1,102)** |
| Isle of Wight Council: budget requirement | | 94,657 | | **93,479** |
| Hampshire & Isle of Wight Fire & Rescue Authority: Council tax requirement | - | | **3,752** | |
| Share of estimated collection fund surplus/(deficit) at 31 March in previous year | - | | **(41)** | |
| Hampshire & Isle of Wight Fire & Rescue Authority: budget requirement | | - | | **3,711** |
| Police & Crime Commissioner: Council tax requirement | 11,386 | | **12,066** | |
| Share of estimated collection fund surplus/(deficit) at 31 March in previous year | 26 | | **(138)** | |
| Police & Crime Commissioner: budget requirement | | 11,412 | | **11,928** |
| **Total precepts and shares of estimated collection fund surplus/(deficit) at 31 March in previous year** | | 106,069 | | **109,118** |

**Council Tax income analysis**

| | 2020-21 | **2021-22** |
|---|---|---|
| | £000 | **£000** |
| Council Tax gross debit | 129,577 | **137,406** |
| Discounts | (10,727) | **(11,528)** |
| Exemptions | (2,084) | **(2,361)** |
| Council Tax Support | (11,403) | **(10,285)** |
| **Council Tax income** | 105,363 | **113,232** |

**Council Tax surplus/(deficit) analysis**

| | 2020-21 | | **2021-22** | |
|---|---|---|---|---|
| | £000 | £000 | **£000** | **£000** |
| Net debit (actual) | 105,363 | | **113,231** | |
| Less: Net debit (estimated) | 106,069 | | **109,118** | |
| Increase/(reduction) in net debit | | (706) | | **4,113** |
| Contribution to allowance for bad debts | | (2,245) | | **(2,204)** |
| Council tax section 13A discretionary relief | | 1,112 | | **79** |
| Collection Fund surplus/(deficit) brought forward | | (456) | | **(2,294)** |
| **Council Tax deficit carried forward** | | (2,295) | | **(306)** |

**CF4. Reconciliation with Isle of Wight Council's note 13 to the comprehensive income and expenditure statement and note 27 Collection Fund adjustment account (Council tax)**

| **2020-21: comparative year** | **Isle of Wight Council £000** | **Police & Crime Commissioner £000** | **Total £000** |
|---|---|---|---|
| Demand/Precept | 94,657 | 11,412 | 106,069 |
| Share of 2020-21 in-year deficit (note 28) | (1,641) | (197) | (1,838) |
| Total (note 13) | 93,016 | 11,215 | 104,231 |
| Share of deficit carried forward at 31 March 2021 | (2,047) | (247) | (2,294) |

| **2021-22** | **Isle of Wight Council £000** | **Hampshire & IOW Fire & Rescue £000** | **Police & Crime Commissioner £000** | **Total £000** |
|---|---|---|---|---|
| Demand/Precept | **93,479** | **3,712** | **11,928** | **109,119** |
| Share of 2021-22 in-year deficit (note 28) | **1,784** | **(9)** | **214** | **1,989** |
| **Total (note 13)** | **95,263** | **3,703** | **12,142** | **111,108** |
| **Share of deficit carried forward at 31 March 2022** | **(264)** | **(9)** | **(32)** | **(305)** |

**CF5a. Reconciliation with Isle of Wight Council's note 13 to the comprehensive income and expenditure statement (Business Rates)**

| **2020-21 (Comparative year)** | **Isle of Wight Council £000** | | **Central Government £000** | | **Total £000** | |
|---|---|---|---|---|---|---|
| Estimate of 2020-21 business rates income at 31 January 2020 | | 19,517 | | 19,517 | | 39,034 |
| Add: share of surplus at 31 March 2020 (estimated at 31 January 2020) | | 375 | | 29 | | 404 |
| Share of actual deficit at 31 March 2020 | (41) | | 82 | | 41 | |
| Share of 2020-21 deficit carried forward at 31 March 2021 | (13,107) | | (12,884) | | (25,991) | |
| Share of 2020-21 in-year deficit | | (13,148) | | (12,802) | | (25,950) |
| Renewable energy rates retained | | 329 | | - | | 329 |
| **Total Business rate income** (note 13) | | 7,073 | | 6,744 | | 13,817 |

| 2021-22 | Isle of Wight Council £000 | | Hampshire & IOW Fire & Rescue £000 | | Central Government £000 | | Total £000 | |
|---|---|---|---|---|---|---|---|---|
| Estimate of 2021-22 business rates income at 31 January 2021 | | **19,538** | | **399** | | **19,936** | | **39,873** |
| Add: share of deficit at 31 March 2021 (estimated at 31 January 2021) | | **(12,444)** | | **(252)** | | **(12,473)** | | **(25,169)** |
| Share of actual deficit at 31 March 2021 | **13,107** | | **-** | | **12,884** | | **25,991** | |
| Share of 2021-22 deficit carried forward at 31 March 2022 | **(6,594)** | | **131** | | **(6,463)** | | **(12,926)** | |
| Share of 2021-22 in-year deficit | | **6,513** | | **131** | | **6,421** | | **13,065** |
| Renewable energy rates retained | | **387** | | **0** | | **0** | | **387** |
| **Total Business rate income** (note 13) | | **13,994** | | **278** | | **13,884** | | **28,156** |

**CF5b. Reconciliation with Isle of Wight Council's note 28 Collection Fund adjustment account (Business rates)**

The figure shown in note 28 Collection fund adjustment account is the amount by which business rate income credited to the comprehensive income and expenditure statement is different from business rate income calculated for the year in accordance with statutory requirements. The business rates income from specified renewable energy projects is retained by the council, as permitted by regulations.

| | 2020-21 £000 | **2021-22 £000** |
|---|---|---|
| Share of deficit/(surplus) brought forward at 1 April reversed in year | **(41)** | **13,107** |
| Renewable energy rates retained brought forward at 1 April reversed in year | **14** | **(51)** |
| Share of deficit at 31 March | **(13,107)** | **(6,594)** |
| Renewable energy rates retained at 31 March (difference between estimate and actual) | **51** | **59** |
| **Total (note 28)** | **(13,083)** | **6,521** |

**CF6. Appeals provision (business rates)**

| | 2020-21 | | | | **2021-22** | | | |
|---|---|---|---|---|---|---|---|---|
| | Collection fund | | Isle of Wight Council share | | **Collection fund** | | **Isle of Wight Council share** | |
| | £000 | £000 | £000 | £000 | **£000** | **£000** | **£000** | **£000** |
| Balance brought forward | | (7,992) | | (5,994) | | **(9,092)** | | **(4,547)** |
| IWC retention share reduced from 75% to 50% | | - | | 1,998 | | **-** | | **-** |
| Charged to provision | 1,337 | | 668 | | **4,133** | | **2,025** | |
| Transfer (to)/from provision | (2,857) | | (1,429) | | **(3,188)** | | **(1,470)** | |
| Released back to Collection Fund | 420 | | 210 | | **0** | | **0** | |
| Net (increase)/decrease in provision | | (1,100) | | (551) | | **945** | | **555** |
| **Balance carried forward** | | (9,092) | | (4,547) | | **(8,148)** | | **(3,992)** |

# ISLE OF WIGHT COUNCIL FIREFIGHTERS' PENSION FUND

With effect from 1st April 2021, the Isle of Wight Council Fire and Rescue Service combined with the Hampshire Fire and Rescue Service to form the new Hampshire and Isle of Wight Fire and Rescue Authority.

All matters relating to Firefighters' Pensions became the responsibility of the new combined Fire Service from this date.

The top-up grant £0.574 million showing in the 2020-21 Statement of Accounts as due from the government at 31 March 2021 has been received.

## ISLE OF WIGHT COUNCIL PENSION FUND

| 2020-21 £000 | FUND ACCOUNT | Notes | 2021-22 £000 |
|---|---|---|---|
| | | | |
| | **Dealings with members, employers and others directly involved in the fund** | | |
| 20,357 | Contributions | 7 | 21,015 |
| 585 | Transfers in from other pension funds | 8 | 953 |
| 10 | Other income | 9 | 15 |
| 20,952 | | | 21,983 |
| | | | |
| (22,369) | Benefits | 10 | (24,067) |
| (687) | Payments to and on account of leavers | 11 | (895) |
| (23,056) | | | (24,962) |
| **(2,104)** | | | **(2,979)** |
| | | | |
| **(7,166)** | Management expenses | 12 | **(5,674)** |
| | | | |
| | **Returns on investments** | | |
| 19,112 | Investment income | 13 | 14,156 |
| (14) | Taxes on income | 14 | - |
| 119,220 | Profit and losses on disposal of investments and changes in the value of investments | 17A | 32,125 |
| (56) | Interest payable | 16 | (5) |
| **138,262** | Net returns on investments | | **46,276** |
| | | | |
| **128,992** | **Net increase/(decrease) in the net assets available for benefits during the year** | | **37,623** |
| 561,705 | Opening Net Assets of the Scheme | | 690,697 |
| **690,697** | Closing Net Assets of the Scheme | | **728,320** |

# ISLE OF WIGHT COUNCIL PENSION FUND

| 2021 £000 | NET ASSETS STATEMENT AS AT 31 MARCH | Notes | 2022 £000 |
|---|---|---|---|
| | | | |
| 695,385 | Investment assets | 17 | 709,786 |
| - | Cash deposits | 17 | 14,003 |
| **695,385** | | | **723,789** |
| | | | |
| - | Investment liabilities | 17 | - |
| (5,500) | Short-term borrowings | 19A | - |
| 155 | Long-term assets | 23 | 183 |
| 1,138 | Current assets | 24 | 4,935 |
| (481) | Current liabilities | 25 | (587) |
| | | | |
| **690,697** | **Net assets of the fund available to fund benefits at the period end** | | **728,320** |

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 22.

# ISLE OF WIGHT COUNCIL PENSION FUND

## NOTES TO THE ACCOUNTS

### 1. DESCRIPTION OF THE FUND

The Isle of Wight Council Pension Fund ("the fund") is part of the Local Government Pension Scheme (LGPS) and is administered by Isle of Wight Council ("the council"). The council is the reporting entity for this pension fund.

The following description of the fund is a summary. For more detail, reference should be made to the Isle of Wight Council Pension Fund Annual Report 2021-22 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations.

**a) General**

The fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by Isle of Wight Council to provide pensions and other benefits for pensionable employees of Isle of Wight Council, and a range of other scheduled and admitted bodies on the Isle of Wight. Teachers, police officers and fire-fighters are not included as they come within other national pension schemes.

The fund is overseen by the Isle of Wight Pension Fund Committee ("the committee"), which is a committee of Isle of Wight Council.

**b) Membership**

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Isle of Wight Council Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations or private contractors undertaking a local authority function following outsourcing to the private sector.

The scheduled bodies of the fund with active members at 31 March 2022 are:

| | |
|---|---|
| Cowes Town Council | Northwood Primary Academy |
| Cowes Enterprise College, an Ormiston Academy | Ryde Academy |
| Gurnard Parish Council | Ryde Town Council |
| Isle of Wight College | Sandown Town Council |
| Isle of Wight Free School | Shanklin Town Council |
| Lanesend Primary Academy | St Blasius Primary Academy |
| Newport and Carisbrooke Community Council | St Francis Academy |
| Northwood Parish Council | Wootton Bridge Parish Council |

The admitted bodies of the fund with active members at 31 March 2022 are:

- Accomplish Group Ltd
- Barnados
- Caterlink
- CleanTEC (new)
- Cowes Harbour Commissioners
- Island Roads Limited
- RM Ltd
- Solutions 4 Health
- Southern Housing Limited
- Southern Vectis
- Sovereign Housing Limited
- Top Mops Ltd
- Ventnor Botanic Gardens
- Yarmouth (IW) Harbour Commissioners

The membership of the scheme is shown below:

Year ended 31 March 2022

| | Administering Authority | Scheduled Bodies | Admitted Bodies | Total |
|---|---|---|---|---|
| Number of employers with active members | 1 | 16 | 14 | **31** |
| | | | | |
| Number of contributors (Active members) | 3,637 | 589 | 88 | **4,314** |
| Number of frozen refunds 1 | 840 | 103 | 4 | **947** |
| Number of deferred pensioners 2 | 5,575 | 646 | 123 | **6,344** |
| Number of pensioners/ widows/dependant pensioners | 4,719 | 360 | 214 | **5,293** |
| | **14,771** | **1,698** | **429** | **16,898** |

Year ended 31 March 2021

| | Administering Authority | Scheduled Bodies | Admitted Bodies | Total |
|---|---|---|---|---|
| Number of employers with active members | 1 | 16 | 15 | **32** |
| | | | | |
| Number of contributors (Active members) | 3,678 | 583 | 102 | **4,363** |
| Number of frozen refunds 1 | 520 | 12 | 4 | **536** |
| Number of deferred pensioners 2 | 5,911 | 707 | 128 | **6,746** |
| Number of pensioners/ widows/dependant pensioners | 4,541 | 328 | 204 | **5,073** |
| | **14,650** | **1,630** | **438** | **16,718** |

[1] Frozen refunds are former employees who do not have any pension entitlement apart from a return of the contributions paid into the Fund during their employment but have not yet claimed the refund.

[2] A deferred pensioner is a former employee who has accrued pension rights within the Fund but has not yet reached retirement age to enable them to access their benefits or transferred their accrued rights to another Fund/provider.

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013.

The pay bands and rates applicable for the year ended 31 March 2022 are detailed below.

| Range (Actual pensionable pay) | Contribution rate |
|---|---|
| Up to £14,600 | 5.50% |
| More than £14,601 and up to £22,900 | 5.80% |
| More than £22,901 and up to £37,200 | 6.50% |
| More than £37,201 and up to £47,100 | 6.80% |
| More than £47,101 and up to £65,900 | 8.50% |
| More than £65,901 and up to £93,400 | 9.90% |
| More than £93,401 and up to £110,000 | 10.50% |
| More than £110,001 and up to £165,000 | 11.40% |
| More than £165,001 | 12.50% |

Employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. The current and future employer contribution rates as determined by that valuation are detailed in note 21.

**d) Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

| | Service pre 1 April 2008 | Service post 31 March 2008 |
|---|---|---|
| **Pension** | Each year worked is worth 1/80 x final pensionable salary | Each year worked is worth 1/60 x final pensionable salary |
| **Lump Sum** | Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. |

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is increased annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits. as explained on the LGPS website – see www.lgpsmember.org. For more details, please refer to the Pension Fund website: http://www.isleofwightpensionfund.org/

## 2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2021-22 financial year and its position at 31 March 2022. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2021-22* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at note 22 of these accounts.

The accounts have been prepared on a going concern basis. Isle of Wight Council remains satisfied the LGPS that it administers continues to be a going concern, with detailed consideration of the period up to the twelve months from the date of approval of these accounts.

The Pension Fund's latest actuarial valuation, as at 31 March 2019, showed it to be 95% funded – an increase from the position 3 years prior of 92%. Investment markets were impacted by the effect of the Russian invasion of Ukraine in February 2022 and the increase in the cost of living. The Fund will be undertaking the next scheduled triennial valuation as at 31 March 2022 and will implement an agreed recovery period in its Funding Strategy Statement, should this be necessary, to make good any funding deficit that may arise as a result of this exercise.

The vast majority of employers in the pension scheme (92% of the Fund by active membership, are scheduled bodies excluding Further and Higher Education employers) have secure public sector funding, and therefore there should be no doubt in their ability to continue to make their pension contributions.

Following the latest actuarial valuation and schedule of employer contribution payments, the Pension Fund has reviewed its cashflow forecast and is confident in its ability to meet its ongoing obligations to pay pensions from its cash balance. In the unlikely event that investments need to be sold, 89.5% of the Fund’s investments can be converted into cash within 3 months.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

## Fund account – revenue recognition

a) **Contribution income**

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis as follows:

- Employees contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body.

Additional employers’ contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) **Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013 (see notes 8 and 11).

Individual transfers in/out are accounted for when paid or received, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see note 8).

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

c) **Investment income**

i) *Interest income*

Interest income is recognised in the fund accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) *Dividend income*

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) *Distributions from pooled funds*

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

*iv) Movement in the value of investments*

Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

## Fund account – expense items

d) **Benefits payable**
Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

**e) Taxation**
The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers from withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

**f) Management expenses**
The fund discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs (2016),* as shown below. All items of expenditure are charged to the fund on an accruals basis as follows:

*Administrative expenses*

All staff costs relating to the pension's administration team are charged direct to the fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses of the fund.

*Oversight and governance costs*

All costs associated with governance and oversight are separately identified, apportioned to this activity and charged as expenses to the fund.

*Investment management expenses*

Investment fees are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off returns by investment managers, these expenses are grossed up to increase the change in market value of investments.

Fees charged by external investment managers and custodians are set out in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Where an investment manager's fee note has not been received by the year-end date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2021-22 no fees are based on such estimates (2020-21: nil)

The cost of obtaining investment advice from external consultants is included in investment management charges.

A proportion of the time spent by officers on investment management is also charged to the fund.

**g) VAT**
VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

**Net assets statement**

**h) Financial assets**
All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. Any amounts due or payable in respect of trades entered into, but not yet complete, at 31 March each year as accounted for as financial instruments held at amortised and reflected in the reconciliation of movements in investments in Note 17A.

Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 18). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

**i) Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

**j) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

All cash balances are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

**k) Financial liabilities**

A financial liability is recognised in the net assets statement on the date the fund becomes legally responsible for that liability. The fund recognises financial liabilities relating to investment trading at fair value and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net asset statement at the value of the outstanding principal at 31 March each year. Any interest due not yet paid is accounted for on an accruals basis and included in administration costs.

**l) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 22).

**m) Additional Voluntary Contributions**

The fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential Life and Pensions as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors.
Each AVC contributor receives an annual statement showing the amount held in their accounts and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 2016 but are disclosed for information in note 26.

**n) Accruals of expenditure and income**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council, as administering authority for the pension fund.
- Revenue from the provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council, as administering authority for the pension fund.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather that when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

**o) Contingent Liabilities and Contingent Assets**

A contingent liability arises where an event prior to the year-end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the Balance Sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset, whose existence will only be confirmed or otherwise by future events.

Contingent assets and liabilities are not recognised in the net asset statement but disclosed by way of a narrative in the notes (see note 28).

## 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

### Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in note 22.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/growth.

## 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could differ from the assumption and estimates made.
The items in the net assets statement at 31 March 2022 for which there is a significant risk of material adjustment within the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| **Actuarial present value of promised retirement benefits** (Note 22) | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied. | For instance:<br>A 0.1% decrease in the discount rate assumption would result in a increase in the pension fund deficit of £18m.<br>A 0.1% increase in assumed earnings inflation would increase the deficit by approximately £1m.<br>A 0.1% increase in assumed price inflation/pension increases would increase the deficit by approximately £16m.<br>A one-year increase in assumed life expectancy would increase the deficit by approximately £37m |
| **Pooled Property Funds** (Note 18) | Valuation techniques are used to determine the carrying amount of pooled property funds. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. | Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property-based investments. |

| | | |
|---|---|---|
| **Private Debt** (Note 18) | These investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (December 2018), based on the fund manager valuations as at the end of the reporting period. These Investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | Private Debt investments are valued at £23.6m in the financial statements. There is a risk that this investment may be over or understated in the accounts. |
| **Infrastructure** (Note 18) | These investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (December 2018), based on the fund manager valuations as at the end of the reporting period. Investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | Infrastructure investments are valued at £7.8m in the financial statements. There is a risk that this investment may be over or understated in the accounts. The fund made its initial investment in July 2021. |

## 6. EVENTS AFTER THE BALANCE SHEET DATE

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide additional information about conditions that existed at the end of the reporting period (adjusting events) and
- those that relate to events occurring after the reporting period (non-adjusting events)

Events taking place after the date of authorisation for issue are not reflected in the financial statements.

There are no post balance sheet events recorded prior to the authorised for issue date and any events that occurred after this date have not been recognised in the statement of accounts.

## 7. CONTRIBUTIONS RECEIVABLE

**By category:**

| 2020-21 £000 | | 2021-22 £000 |
|---|---|---|
| 4,147 | Employees' normal contributions | 4,277 |
| 10 | Employees' additional contributions | 5 |
| **4,157** | | **4,282** |
| 15,406 | Employers' normal contributions | 15,951 |
| 170 | Employers' deficit recovery contributions | 158 |
| 624 | Employers' augmentation contributions | 624 |
| **16,200** | | **16,733** |
| **20,357** | | **21,015** |

**By type of employer:**

| 2020-21 £000 | | 2021-22 £000 |
|---|---|---|
| 16,816 | Administering authority | 17,364 |
| 2,256 | Scheduled bodies | 2,322 |
| 1,285 | Admitted bodies | 1,329 |
| **20,357** | | **21,015** |

## 8. TRANSFERS IN FROM OTHER PENSION FUNDS

| 2020-21<br>£000 | | 2021-22<br>£000 |
|---:|---|---:|
| - | Group transfers | - |
| 585 | Individual transfers | 953 |
| **585** | | **953** |

## 9. OTHER INCOME

| 2020-21<br>£000 | | 2021-22<br>£000 |
|---:|---|---:|
| 10 | Miscellaneous income | 15 |
| **10** | | **15** |

## 10. BENEFITS PAYABLE

**By category:**

| 2020-21<br>£000 | | 2021-22<br>£000 |
|---:|---|---:|
| 19,783 | Pensions | 20,110 |
| 2,208 | Commutation and lump sum retirement benefits | 3,207 |
| 378 | Lump sum death benefits | 750 |
| **22,369** | | **24,067** |

**By type of employer:**

| 2020-21<br>£000 | | 2021-22<br>£000 |
|---:|---|---:|
| 19,729 | Administering authority | 20,824 |
| 1,155 | Scheduled bodies | 1,422 |
| 1,485 | Admitted bodies | 1,821 |
| **22,369** | | **24,067** |

## 11. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| 2020-21<br>£000 | | 2021-22<br>£000 |
|---:|---|---:|
| 58 | Refund to members leaving service | 80 |
| - | Group transfers | - |
| 629 | Individual transfers | 815 |
| **687** | | **895** |

## 12. MANAGEMENT EXPENSES

| 2020-21<br>£000 | | 2021-22<br>£000 |
|---:|---|---:|
| 494 | Administrative costs | 557 |
| 6,194 | Investment management expenses | 4,562 |
| 478 | Oversight and governance costs | 555 |
| **7,166** | | **5,674** |

## 12A. INVESTMENT MANAGEMENT EXPENSES

| 2021-22 | Total £'000 | Management Fees £'000 | Performance Related Fees £'000 | Transaction Fees £'000 |
|---|---|---|---|---|
| Bonds | 366 | 278 | - | 88 |
| Equities | - | - | - | - |
| Pooled Investments * | 2,623 | 1,903 | - | 720 |
| Pooled Property Investments | 554 | 449 | - | 105 |
| Private Debt | 242 | 105 | 104 | 33 |
| Infrastructure | 752 | 718 | - | 34 |
| | **4,537** | **3,453** | **104** | **980** |
| Custody Fees | 25 | | | |
| **Total** | **4,562** | | | |

'* Included £2.6m charged to the pension fund by ACCESS regional asset pool (£4.3m in 2020-21)

| 2020-21 | Total £'000 | Management Fees £'000 | Performance Related Fees £'000 | Transaction Fees £'000 |
|---|---|---|---|---|
| Bonds | 433 | 280 | - | 153 |
| Equities | 633 | 257 | - | 376 |
| Pooled Investments * | 4,284 | 1,399 | - | 2885 |
| Pooled Property Investments | 607 | 254 | - | 353 |
| Private Debt | 219 | 29 | 40 | 150 |
| | **6,176** | **2,219** | **40** | **3,917** |
| Custody Fees | 18 | | | |
| **Total** | **6,194** | | | |

## 13. INVESTMENT INCOME

| 2020-21 £000 | | 2021-22 £000 |
|---|---|---|
| 2,672 | Income from equities | - |
| | Income from pooled investment vehicles: | |
| 3,552 | - ACCESS Global Equity | 2,801 |
| 209 | - ACCESS UK Equity | 2,273 |
| 701 | - ACCESS Diversified Growth | 1,597 |
| 1,141 | - Property | 1,398 |
| 4,135 | - Bonds | 3,779 |
| 47 | - Unit Trusts | - |
| 124 | - Private Debt | 1,059 |
| - | - Infrastructure | 1,252 |
| - | - Interest on cash deposits | 3 |
| 6,531 | - Other | (6) |
| **19,112** | | **14,156** |

## 14. TAXATION

| 2020-21 £000 | | 2021-22 £000 |
|---|---|---|
| 14 | Withholding tax - equities | - |
| **14** | | **-** |

## 15. EXTERNAL AUDIT COSTS

| 2020-21 £000 | | 2021-22 £000 |
|---|---|---|
| 23 | Payable in respect of external audit | 62 |
| **23** | | **62** |

## 16. INTEREST PAYABLE

| 2020-21 £000 | | 2021-22 £000 |
|---|---|---|
| 56 | Interest on short term borrowing | 5 |
| **56** | | **5** |

## 17. INVESTMENTS

| Market value 31 March 2021 £000 | | Market value 31 March 2022 £000 |
|---|---|---|
| | **Investment assets** | |
| - | **Equities** | - |
| - | **Unit Trust** | - |
| | **Pooled Investment Vehicles** | |
| 144,137 | Pooled UK Equity | 99,534 |
| 249,157 | Pooled Global Equity | 288,761 |
| 140,911 | Pooled Fixed Income unit trusts | 113,532 |
| 114,514 | Pooled Diversified Growth Fund | 131,952 |
| **648,719** | | **633,779** |
| | **Other Investments** | |
| 37,459 | Pooled Property Investments | 44,453 |
| 9,186 | Private Debt | 23,605 |
| - | Infrastructure | 7,949 |
| **46,645** | | **76,007** |
| | | |
| - | Cash deposits | 14,003 |
| - | Investment income due | - |
| - | Amounts receivable for sales | - |
| 21 | Recoverable withholding tax | - |
| **21** | | **14,003** |
| **695,385** | **Total investment assets** | **723,789** |
| | **Investment liabilities** | |
| - | Amounts payable for purchases | - |
| **-** | **Total investment liabilities** | **-** |
| **695,385** | **Net investment assets** | **723,789** |

## 17A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

| | Market value 01/04/21 | Purchases during year | Sales during year | Change in Mkt value | **Mkt Value 31/03/22** |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Equities | **-** | - | - | - | **-** |
| Unit Trusts | **-** | - | - | - | **-** |
| Pooled Investment Vehicles | **648,719** | 150,376 | (190,468) | 25,152 | **633,779** |
| Pooled Property Investments | **37,459** | 1,240 | (105) | 5,859 | **44,453** |
| Private Debt | **9,186** | 15,573 | (2,031) | 877 | **23,605** |
| Infrastructure | **-** | 11,544 | (3,340) | (255) | **7,949** |
| | **695,364** | **178,733** | **(195,944)** | **31,633** | **709,786** |
| Cash deposits | **-** | | | 492 | **14,003** |
| Amounts receivable for sales of investments | **-** | | | - | **-** |
| Investment income due | **-** | | | - | **-** |
| Recoverable withholding tax | **21** | | | - | **-** |
| Amounts payable for purchases of investments | **-** | | | - | **-** |
| **Net investment assets** | **695,385** | | | **32,125** | **723,789** |

| | Market value 01/04/20 | Purchases during year | Sales during year | Change in Mkt value | **Mkt Value 31/03/21** |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Equities | **104,665** | 41,906 | (157,864) | 11,293 | **-** |
| Unit Trusts | **7,331** | 47 | (9,330) | 1,952 | **-** |
| Pooled Investment Vehicles | **415,419** | 154,236 | (25,629) | 104,693 | **648,719** |
| Pooled Property Investments | **35,053** | 1,826 | (242) | 822 | **37,459** |
| Private Debt | **-** | 9,049 | (70) | 207 | **9,186** |
| Infrastructure | **-** | | | | **-** |
| | **562,468** | **207,064** | **(193,135)** | **118,967** | **695,364** |
| Cash deposits | **5,275** | | | 253 | **-** |
| Amounts receivable for sales of investments | **834** | | | - | **-** |
| Investment income due | **223** | | | - | **-** |
| Recoverable withholding tax | **35** | | | - | **21** |
| Amounts payable for purchases of investments | **(403)** | | | - | **-** |
| **Net investment assets** | **568,432** | | | **119,220** | **695,385** |

## 17B. INVESTMENTS ANALYSED BY FUND MANAGER

| Market value 31 March 2021 £000 | % | | Market value 31 March 2022 £000 | % |
|---|---|---|---|---|
| **Investments Managed by ACCESS pool:** | | | | |
| 249,157 | 35.8% | ACCESS – Global Equities - Newton | 149,384 | 21.1% |
| 114,514 | 16.5% | ACCESS - Diversified Growth - Baillie Gifford | 113,532 | 16.0% |
| 144,137 | 20.7% | ACCESS - UK Equities - Liontrust (Majedie) | 99,534 | 14.0% |
| - | 0.0% | UBS Life Climate Aware World Equity Fund | 139,377 | 19.6% |
| **507,808** | **73.0%** | | **501,827** | **70.7%** |
| | | | | |
| **Investments Managed outside ACCESS pool:** | | | | |
| 140,911 | 20.3% | Schroder Investment Management – Bonds | 131,952 | 18.6% |
| 37,459 | 5.4% | Schroder Investment Management – Property | 44,453 | 6.3% |
| 9,186 | 1.3% | Goldman Sachs - Private Debt | 23,605 | 3.3% |
| - | 0.0% | Partners Investment - Infrastructure | 7,949 | 1.1% |
| **187,556** | **27.0%** | | **207,959** | **29.3%** |
| **695,364** | **100.0%** | | **709,786** | **100.0%** |
| 21 | 0.0% | Recoverable withholding tax | - | 0.0% |
| **695,385** | **100.0%** | | **709,786** | **100.0%** |

**The following investments represent more than 5% of the total net assets of the fund**

| Market value 31 March 2021 £000 | % | | Market value 31 March 2022 £000 | % |
|---|---|---|---|---|
| 249,157 | 36.07% | ACCESS – Overseas Equities - Newton | 149,384 | 20.52% |
| - | 0.00% | UBS Life Climate Aware World Equity Fund | 139,377 | 19.14% |
| 140,911 | 20.40% | Schroder Institutional Sterling Broad Market X Account | 131,952 | 18.12% |
| 114,514 | 16.58% | ACCESS - Diversified Growth - Baillie Gifford | 113,532 | 15.59% |
| 144,137 | 20.87% | ACCESS - UK Equities - Liontrust | 99,534 | 13.67% |
| 37,459 | 5.42% | Schroder UK Property Fund | 44,453 | 6.11% |

## 17C. STOCK LENDING

The fund's investment strategy sets the parameters for its stock-lending programme.
Prior to joining the ACCESS pool, the fund did not undertake stock lending.
Since transitioning to the pool, the fund participates in a collateralised stock lending programme undertaken for each of the sub-funds by the pool's custodian, Northern Trust.
At the year-end, the value of quoted equities on loan was £9.0m (31 March 2021: £Nil).
These equities continue to be recognised in the fund's financial statements. No liabilities are associated with the loaned assets.
All income earned by lending securities is accumulated in the sub-fund and is reported in the value of investments.

## 18. FAIR VALUE – BASIS OF VALUATION

All investments are held at fair value in accordance with the requirements of the Code and IFRS13. The valuation bases are set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. There has been no change in the valuation techniques used during the year.

| Description of Asset | Valuation Hierarchy | Basis of Valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| **Market quoted investments** | Level 1 | Published bid market price ruling on the final day of the accounting period | Not required | Not Required |
| **Exchange traded pooled investments** | Level 1 | Closing bid value on published exchanges | Not required | Not Required |
| **Pooled investments – overseas unit trusts and property funds** | Level 2 | Closing bid price where bid and offer prices are published<br>Closing single price where single price published | NAV- based pricing set on a forward pricing basis | Not Required |
| **Private Debt** | Level 3 | The valuation is taken from the unaudited 31 March 2022 Goldman Sachs quarterly reports.<br>The quarterly valuation is calculated in accordance with the fair value assessment described in Accounting Standards Codification 820 ("Fair Value Measurements and Disclosures") and in accordance with US GAAP.<br>The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information. To date, the audited accounts for Goldman Sachs Asset Management Private Credit Funds have been given unqualified opinions without any identified exceptions. | Management's cash flow projections, estimates of growth expectations and profitability; profit margin expectations; gross domestic product; inflation; interest rates; discount rates; tax rates; Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) and adjustments to current prices for similar assets, valuation techniques. | Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, fair value adjustments, discount factors used, EBITDA and recent transaction prices. |
| **Infrastructure** | Level 3 | Fair values as per International Private equity and venture capital guidelines (2012) | valuation of underlying investments, assets and companies; Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) multiples | Valuations could be affected by changes in market conditions; industry specific conditions; differences in estimation techniques used in valuations. |

**Sensitivity of assets valued at Level 3**

The Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

| | Potential variation in fair value | Value at 31 March 2022 £'000 | Potential value on increase £'000 | Potential value on decrease £'000 |
|---|---|---|---|---|
| Private Debt | + / - 10% | 23,605 | 25,966 | 21,245 |
| Infrastructure | + / - 10% | 7,949 | 8,744 | 7,154 |
| **Total** | | 31,554 | 34,710 | 28,399 |

## 18A. FAIR VALUE HEIRARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

**Level 1**
Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted bonds and unit trusts.

**Level 2**
Assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value based on observable data.

**Level 3**
Assets and liabilities at Level 3 are those where at least one input that could have a significant impact on the instrument's valuation is not based on observable market data.
The following table provides an analysis of the assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable:

| 31 March 2021 | | | | | 31 March 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| Quoted Market Price Level 1 £000 | Using Observable Inputs Level 2 £000 | With Significant Unobservable Inputs Level 3 £000 | Total £000 | | Quoted Market Price Level 1 £000 | Using Observable Inputs Level 2 £000 | With Significant Unobservable Inputs Level 3 £000 | Total £000 |
| 648,719 | 37,459 | 9,186 | 695,364 | Financial assets at fair value through profit and loss | 633,779 | 44,453 | 31,554 | 709,786 |
| - | - | - | - | Financial liabilities at fair value through profit and loss | - | - | - | - |
| **648,719** | **37,459** | **9,186** | **695,364** | **Net investment assets** | **633,779** | **44,453** | **31,554** | **709,786** |

### 18A. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITH LEVEL 3

| | Private Debt £,000 | Infrastructure £'000 | Total £,000 |
|---|---|---|---|
| Value at 1 April 2021 | 9,186 | - | 9,186 |
| Purchases | 15,573 | 11,544 | 27,117 |
| Sales | (2,031) | (3,340) | (5,371) |
| Unrealised Gains and Losses* | 824 | (135) | 689 |
| Realised Gains and Losses* | 53 | (120) | (67) |
| **Value at 31 March 2022** | **23,605** | **7,949** | **31,554** |

| | Private Debt £,000 | Infrastructure £'000 | Total £,000 |
|---|---|---|---|
| Value at 1 April 2020 | - | - | - |
| Purchases | 9,049 | - | 9,049 |
| Sales | (70) | - | (70) |
| Unrealised Gains and Losses* | 215 | - | 215 |
| Realised Gains and Losses* | (8) | - | (8) |
| **Value at 31 March 2021** | **9,186** | **-** | **9,186** |

* Unrealised and realised gains and losses are recognised in the changes in value of investments line of the fund account.

Investment into Private debt commenced in January 2021.

Investment into Infrastructure commenced in July 2021.

## 19. FINANCIAL INSTRUMENTS

### 19A. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and the net assets statement heading. No financial instruments were reclassified during the accounting period.

| 31 March 2021 | | | | 31 March 2022 | | |
|---|---|---|---|---|---|---|
| Fair value through profit and loss £000 | Assets at amortised costs £000 | Liabilities at amortised cost £000 | | Fair value through profit and loss £000 | Assets at amortised costs £000 | Liabilities at amortised cost £000 |
| | | | **Financial assets** | | | |
| - | - | - | Equities | - | - | - |
| 686,178 | - | - | Pooled investment vehicles | 678,232 | - | - |
| 9,186 | - | - | Private Debt | 23,605 | - | - |
| - | - | - | Infrastructure | 7,949 | - | - |
| - | 791 | - | Cash | - | 18,290 | - |
| - | - | - | Other investment balances | - | - | - |
| - | 8 | - | Debtors | - | 8 | - |
| **695,364** | **799** | **-** | | **709,786** | **18,298** | **-** |
| | | | **Financial liabilities** | | | |
| - | - | - | Other investment balances | - | - | - |
| - | - | (268) | Creditors | - | - | (379) |
| - | - | - | Bank Balance | - | - | - |
| - | - | (5,500) | Borrowings | - | - | - |
| **-** | **-** | **(5,768)** | | **-** | **-** | **(379)** |
| **695,364** | **799** | **(5,768)** | | **709,786** | **18,298** | **(379)** |

## 20. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Risk and risk management

The fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the pension fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.
Because the fund adopts a long-term investment strategy, the high-level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

**a) Market risk**

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the pension fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The fund's investments are managed on behalf of the fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The committee has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The committee regularly monitors each investment manager, and both considers and takes advice on the nature of the investments made as well as the associated risks.

**Other price risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or by factors affecting all such instruments in the market.

All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this price risk through diversification. The selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

**Other price risk - sensitivity analysis**

In consultation with its investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for 2021-22 assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

Had the market price of the fund investments increase/decreased in line with the percentages below, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

| | Value as at 31 March 2022 £000 | Volatility of return % | Value on increase £000 | Value on decrease £000 |
|---|---|---|---|---|
| Equities - UK | - | - | - | - |
| Equities - Overseas | - | - | - | - |
| Bonds | 131,952 | 3.30% | 136,307 | 127,598 |
| Unit Trusts | - | - | - | - |
| Pooled Investment vehicles: | | | | |
| UK Equities | 99,534 | 2.40% | 101,923 | 97,145 |
| Global Equities | 149,384 | 3.60% | 154,762 | 144,006 |
| Diversified Growth Fund | 113,532 | 2.80% | 116,711 | 110,353 |
| UBS Climate Aware | 139,377 | 3.00% | 143,558 | 135,196 |
| Pooled Property Investments | 44,453 | 4.10% | 46,279 | 42,633 |
| Private Debt | 23,605 | 19.90% | 28,302 | 18,907 |
| Infrastructure | 7,949 | 23.60% | 9,809 | 6,089 |
| Cash & Cash Equivalents | 14,003 | 0.00% | 14,003 | 14,003 |
| Amounts Receivable for Sales | - | - | - | - |
| Investment Income due | - | - | - | - |
| Recoverable withholding tax | - | - | - | - |
| Amounts payable for purchases | - | - | - | - |
| **Total** | **723,789** | | **751,654** | **695,930** |

| | Value as at 31 March 2022 | Volatility of return | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £000 | % | £000 | £000 |
| Equities - UK | - | - | - | - |
| Equities - Overseas | - | - | | |
| Bonds | 140,911 | 1.60% | 143,165 | 138,656 |
| Unit Trusts | - | - | - | - |
| Pooled Investment vehicles: | | | | |
| UK Equities | 144,137 | 3.10% | 148,577 | 139,698 |
| Global Equities | 249,157 | 5.80% | 263,608 | 234,706 |
| Diversified Growth Fund | 114,514 | 4.20% | 119,324 | 109,705 |
| UBS Climate Aware | | | | |
| Pooled Property Investments | 37,459 | 1.00% | 37,834 | 37,084 |
| Private Debt 1 | 9,186 | 0.00% | 9,186 | 9,186 |
| Infrastructure | | | | |
| Cash & Cash Equivalents | - | - | - | - |
| Amounts Receivable for Sales | - | - | - | - |
| Investment Income due | - | - | - | - |
| Recoverable withholding tax | 21 | 0.00% | 21 | 21 |
| Amounts payable for purchases | - | - | - | - |
| **Total** | **695,385** | | **721,715** | **669,056** |

1 The price sensitivity for Private Debt is assessed at zero due to the short period that the fund has been invested in it. The fund made its initial investment in January 2021. This is in alignment with the estimated variation on the valuation as mentioned in Note 5 above.

**b) Interest rate risk**

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

**Interest rate risk - sensitivity analysis**

The fund recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits.

The fund does not directly hold any fixed interest securities; hence a change in interest rates will not impact on the fair value of assets.

Changes in interest rates do not impact on the fair value of cash balances, but they will impact on the interest income earned.

**c) Currency risk**

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling. For a sterling-based investor, when sterling weakens, the sterling value of foreign currency denominated investments rises. As sterling strengthens, the sterling value of foreign currency denominated investment falls.

The following table summarises the fund’s currency exposure as at 31 March 2022, and as at the previous period end:

| | Asset value as at 31 March 2022 | Asset value as at 31 March 2021 |
|---|---|---|
| | £000 | £000 |
| Private Debt | 23,605 | 9,186 |
| Infrastructure | 7,949 | - |
| Investment Income | 2,311 | - |
| | **33,865** | **9,186** |

**Currency risk – sensitivity analysis**

Following analysis of historical data, the fund considers the likely volatility associated with foreign exchange movements to not exceed be 7.1% (2020-21: 3.28%). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7.10% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| | Value as at 31 March 2022 | Value on increase +7.10% | Value on decrease -7.10% |
|---|---|---|---|
| | £000 | £000 | £000 |
| Private Debt | 23,605 | 25,281 | 21,929 |
| Infrastructure | 7,949 | 8,513 | 7,385 |
| Investment income due | 2,311 | 2,475 | 2,147 |
| | **33,865** | **36,269** | **31,461** |

| | Value as at 31 March 2021 | Value on increase +3.64% | Value on decrease -3.64% |
|---|---|---|---|
| | £000 | £000 | £000 |
| Private Debt | 9,186 | 9,487 | 8,885 |
| Infrastructure | - | - | - |
| Investment income due | - | - | - |
| | **9,186** | **9,487** | **8,885** |

**d) Credit Risk**

Credit risk represents the risk that the counterparty to a financial transaction will fail to discharge an obligation and cause the fund to incur a financial loss. Assets potentially affected by this risk are investment assets, cash deposits and third-party loans. The selection of high-quality counterparties, brokers, custodian and investment managers minimises credit risk and the market values of investments generally reflect an assessment of credit risk.

The fund does not hold any fixed interest securities directly, hence has limited credit risk through its underlying investments in bonds.

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally held cash is managed on the fund's behalf by the council's treasury management team in line with the council's Treasury Management Strategy which sets out the permitted counterparties and limits. The fund invests surplus cash held with the custodian in diversified money market funds.

The fund is exposed to counterparty risk in its operational activities through securities lending, via the ACCESS pool. This risk is managed through the pool's custodian bank holding non-cash collateral as security, at the typical market rate of 102% of stock lent, or 105% for cross-currency, to allow for foreign exchange exposure.

The fund does not have any foreign exchange contracts, hence is not subject to credit risk in relation to the counterparties of the contracts.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The pension fund has not experienced any actual defaults in recent years. All contributions due at 31 March 2022 and 31 March 2021 (£495k and £195k respectively) were received in the first month of the financial year.

**e) Liquidity Risk**

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The pension fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The fund maintains a cash balance to meet working requirements, which is supported by an available credit line from the Isle of Wight Council. Note 27 includes details of borrowing from the council for this purpose. Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund's investment strategy.

A substantial portion of the fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though they are held in pooled funds. However, the main liability of the fund is the benefits payable, which fall due over a long period and the investment strategy reflects the long-term nature of these liabilities. The fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property which are subject to longer redemption periods and cannot be considered as liquid as the other investments.

All financial liabilities at 31 March 2022 are due within one year.

f) **Refinancing risk**

The key risk is that the pension fund will need to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The pension fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

## 21. FUNDING ARRANGEMENTS

In accordance with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 and the next valuation will take place as at 31 March 2022.

**Description of Funding Policy**

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- not to restrain unnecessarily the Investment Strategy of the Pension Fund so that the Administering Authority can seek to maximise investment returns (and hence meet the costs of benefits) for an appropriate level of risk;
- to minimise the long-term cash contributions which employers need to pay to the fund by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Taxpayer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least an 80% likelihood that the Fund will achieve the funding target over 20 years.

**Funding Position as at the last formal funding valuation**

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £596 million (2016: £474 million), were sufficient to meet 95% of the liabilities (2016: 92%) (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £32 million (2016: deficit £44 million).

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below: -

| Employer Name | | Minimum Contributions for the Year Ending 31 March | | |
|---|---|---|---|---|
| | | 2021 % of pay | 2022 % of pay | 2023 % of pay |
| Isle of Wight Council | | 23.5 | 23.5 | 23.5 |
| | | | | |
| Barnardos | | Nil | Nil | Nil |
| Caterlink | | 23.5 | 23.5 | 23.5 |
| Cowes Enterprise College, an Ormiston Academy | * | 23.5 | 23.5 | 23.5 |
| Cowes Harbour Commissioners | | 21.5 | 21.5 | 21.5 |
| The Island Free School | | 19.6 | 19.6 | 19.6 |
| Island Roads | | Nil | Nil | Nil |
| Isle of Wight College (from 1 August) | | 23.8 | 23.8 | 23.8 |
| Lanesend Academy | * | 21.1 | 21.1 | 21.1 |
| Northwood Academy | * | 23.5 | 23.5 | 23.5 |
| Nviro | | 23.5 | 23.5 | 23.5 |
| Ryde Academy, Academies Enterprise Trust | * | 23.5 | 23.5 | 23.5 |
| Sandown Bay Academy | * | 23.5 | 23.5 | 23.5 |
| Southern Vectis (Wightbus) | | 10.3 | 10.3 | 10.3 |
| Southern Housing Group | | 31.6 | 31.6 | 31.6 |
| Sovereign Housing Group | | 29.7 | 29.7 | 29.7 |
| St Blasius Academy | * | 23.5 | 23.5 | 23.5 |
| St Catherine's School Ltd | | 26.6 | 26.6 | 26.6 |
| St Francis Academy | * | 23.5 | 23.5 | 23.5 |
| Top Mops | | 21.5 | 21.5 | 21.5 |
| Trustees of Carisbrooke Castle Museum | | 35.4 | 35.4 | 35.4 |
| Ventnor Botanical Gardens | | Nil | Nil | Nil |
| Yarmouth Harbour Commissioners | | 24.8 | 24.8 | 24.8 |

in addition, certain employers make a lump sum contribution

| Employer Name | Ending 31 March | | |
|---|---|---|---|
| | 2021 Lump Sum £000 | 2022 Lump Sum £000 | 2023 Lump Sum £000 |
| St Catherine's School Ltd | 32 | 33 | 34 |
| Yarmouth Harbour Commissioners | 57 | 57 | 57 |
| Cowes Harbour Commissioners | 19 | 19 | 19 |
| Southern Housing Group | 274 | 274 | 274 |
| Sovereign Housing Group | 198 | 198 | 198 |

* During 2019-20, academies within the fund were asked whether they wished to pool with the administering authority for contribution rate purposes only. Seven of the academies in operation at the time of the 2019 valuation opted to pool, and the pooled rates are shown above.

Employers that have joined the fund since the last valuation have opted to pay the administering authority's contribution rate. This will be reviewed at the next valuation, 31 March 2022.

**Principal Actuarial Assumptions and Method used to value the liabilities**

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

| Financial Assumptions | 31 March 2019<br>% p.a. Nominal |
|---|---|
| Discount rate (Investment returns) | 3.4% |
| Salary Increases | 3.1% |
| Price inflation/Pension Increases | 2.3% |

(Explanatory note: The pay increases shown above are for the purposes of the actuarial valuation only and not a reflection of what actual pay rises will be in the short-term. The assumptions are consistent with other assumptions used in the actuarial valuation and reflect longer term trends.)

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a. for both women and men.

Based on these assumptions, the average future life expectancies at age 65 are as follows:

| | Males | Females |
|---|---|---|
| Current Pensioners | 21.7 years | 23.8 years |
| Future Pensioners * | 22.4 years | 25.2 years |

* based on members aged 45 at the valuation date.

Copies of the 2019 valuation report and the Funding Strategy Statement are available on the Isle of Wight Pension Fund website www.isleofwightpension.org.

**Experience over the period since 31 March 2019**

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be better than that reported at the previous formal valuation as at 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is as at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise.

## 22. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year but taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 21). The actuary has also used valued ill health and death benefits in line with IAS 19.

**Present value of promised retirement benefits**

| Year ended | 31 March 2022 £m | 31 March 2021 £m |
|---|---|---|
| Active members | 385 | 379 |
| Deferred members | 216 | 233 |
| Pensioners | 319 | 345 |
| **Net Liability** | **920** | **957** |

The promised retirement benefits at 31 March 2022 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, the actuary is satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.
The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. The actuary has not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2022 and 31 March 2021. The actuary estimates that the impact of the change in financial assumptions to 31 March 2022 is to decrease the actuarial present value by £67m. The actuary estimates that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £5m.

Financial assumptions

| Year ended | 31 March 2022 % p.a. | 31 March 2021 % p.a. |
|---|---|---|
| Pension Increase Rate (CPI) | 3.20% | 2.85% |
| Salary Increase Rate | 4.00% | 3.65% |
| Discount Rate | 2.70% | 2.00% |

(Explanatory note: The pay increases shown above are for the purposes of the actuarial valuation only and are not a reflection of what actual pay rises will be in the short-term. The assumptions are consistent with other assumptions used in the actuarial valuation and reflect longer term trends.)

Demographic assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Life expectancy is based on the fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020 data), standard smoothing (Sk7), initial adjustment of 0.25% and a long-term rate of improvement of 1.5% p.a.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

| | Males | Females |
|---|---|---|
| Current Pensioners | 21.7 years | 24.0 years |
| Future Pensioners * | 22.6 years | 25.7 years |

* Future pensioners are assumed to be aged 45 at the most recent formal valuation date, 31 March 2019

All other demographic assumptions are unchanged from last year and as per the latest funding valuation of the Fund.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

| change in assumption at 31 March 2022 | Approximate % increase to promised retirement benefits | Approximate monetary amount (£m) |
|---|---|---|
| 0.1% p.a. decrease in the discount rate | 2% | 18 |
| 1-year increase in member life expectancy | 4% | 37 |
| 0.1% p.a. increase in the Salary Increase Rate | 0% | 1 |
| 0.1% p.a. increase in the Pension Increase Rate (CPI) | 2% | 16 |

## 23. LONG TERM ASSETS

| 31 March 2021 £000 | | 31 March 2022 £000 |
|---|---|---|
| | Debtors | |
| 11 | Contributions due - employers | 29 |
| 144 | Reimbursement of annual tax allowances | 154 |
| **155** | | **183** |

## 24. CURRENT ASSETS

| 31 March 2021 £000 | | 31 March 2022 £000 |
|---|---|---|
| | Debtors | |
| 42 | Contributions due - employees | 99 |
| 153 | Contributions due - employers | 396 |
| **195** | | **495** |
| 13 | Taxation | 8 |
| 8 | Sundry debtors | 8 |
| 131 | Payments in advance | 137 |
| 791 | Cash balances | 4,287 |
| **1,138** | | **4,935** |

## 25. CURRENT LIABILITIES

| 31 March 2021 £000 | | 31 March 2022 £000 |
|---|---|---|
| | Creditors | |
| 213 | Taxation | 208 |
| 167 | Accruals | 360 |
| 101 | Sundry creditors | 19 |
| **481** | | **587** |

## 26. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

| Market value 31 March 2021 £000 | | Market value 31 March 2022 £000 |
|---|---|---|
| 786 | Prudential life and pensions | 824 |

AVC contributions of £148.0 thousand were paid directly to Prudential Life and Pensions during the year (2020-21: £117.1 thousand).

AVC amounts are not included in the pension fund accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

## 27. RELATED PARTY TRANSACTIONS

**Isle of Wight Council**
The Isle of Wight Council Pension Fund is administered by Isle of Wight Council. Consequently, there is a strong relationship between the council and the pension fund.

During the reporting period, the council incurred costs of £522 thousand (2020-21: £503 thousand) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund and contributed £13.7 million in 2021-22 (2020-21: £13.3 million) to the fund. All monies owing to the fund, except for deferred balances in respect of pension strain costs totalling £39.6 thousand (2021: Nil), were paid during the year.

During the year, the pension fund was able to borrow funds from the council to support its working cash flow requirements; interest would be charged on these borrowings at the broker local authority interest rate relevant to the amount and duration of the borrowing at the time it was made. The maximum amount borrowed during 2021-2 was £8.5 million (2020-21: £8.0 million). The balance due to the council at 31 March 2022 is Nil (2021: £5.5 million), interest of £5.14 thousand (2020-21: £56.2 thousand) was paid on the borrowings in the year.

| Year ended 31 March 2021 £000 | Repayment profile of borrowings from Isle of Wight Council | Year ended 31 March 2022 £000 |
|---|---|---|
| - | less than 1 month | - |
| 500 | 2 - 3 months | - |
| - | 3 - 6 months | - |
| - | 6 - 9 months | - |
| 5,000 | 9 - 12 months | - |
| **5,500** | **Total value of borrowings** | **-** |

**Governance**
There are no voting members of the Isle of Wight Pension Fund Committee who are in receipt of pension benefits from, or who are active members of the Isle of Wight Council Pension Fund.

Each member of the Isle of Wight Pension Fund Committee is required to declare their interests at each meeting.

Council members named in note 29 formed the Isle of Wight Pension Fund Committee as trustees at 31 March 2022.

## 27A. KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are members of the Isle of Wight Pension Fund Committee, the Director of Finance and S151 Officer and the Pension Fund Manager.

Total remuneration payable to key management personnel is set out below:

| Year ended 31 March 2021 £000 | | Year ended 31 March 2022 £000 |
|---|---|---|
| 59 | Short-term benefits | 60 |
| 13 | Post-employment benefits | 13 |
| - | Other long-term benefits | - |
| - | Termination benefits | - |
| - | Share-based payments | - |
| **72** | | **73** |

## 28. CONTINGENT ASSETS, LIABILITIES AND CAPITAL COMMITMENTS

At 31 March 2022 there was a contingent liability relating to Contribution Equivalent Premiums (CEPs) amounting to £4 thousand (2021: £4 thousand) payable by the Pension Fund. These sums do not form part of the net assets of the fund.

In October 2018 a decision was made to join a Class Action against BHP Billiton which seeks to recover some of the loss in share value suffered because of BHP Billiton's alleged failure to disclose material information and its alleged misleading and deceptive conduct. It is estimated that there is a possible benefit to the Pension Fund of £6 thousand (2021: £5 thousand). This case is currently ongoing. The sums do not form part of the net assets of the fund.

One admitted body employer in the Isle of Wight Pension Fund holds a guarantee bond to guard against the possibility of being unable to meet their pension obligations. This bond is drawn in favour of the pension fund and payment will only be triggered in the event of an employer default. No such default has occurred during 2021-22 (2020-21 Nil).

During the financial year the Pension Fund has committed to investing into a Private Debt and an Infrastructure Fund. Each of these funds are calling the capital in instalments, the value of which depend on the investments the funds are making at the time. The balance that has been committed but not paid as at the 31 March 2022 is as per the table below:

| | 31 March 2022 | | | |
|---|---|---|---|---|
| | Private Debt | | Infrastructure | |
| | $'000 | £'000 | €'000 | £'000 |
| Total amount Committed | 39,300 | 29,890 | 41,000 | 34,532 |
| Total Invested | 30,065 | 22,866 | 9,225 | 7,770 |
| Balance committed but not yet paid | 9,236 | 7,024 | 31,775 | 26,762 |

The committed balances do not form part of the net assets of the fund.

## 29. TRUSTEES REPORT 2021-22

The trustees of the Isle of Wight Council Pension Fund are the members for the time being of the Isle of Wight Pension Fund Committee, who at 31 March 2022 were Cllrs Andre, Brading, Churchman, Critchison (vice chair), Jarman (chair), Oliver and Quigley.
In addition, a non-voting representative of the scheme members (selected by UNISON) attends the committee. Throughout the year, the position of non-voting representative of the scheme employers (selected by the fund's external employers) was vacant.

Throughout the year the committee has been advised by the Director of Finance and Section 151 Officer, the Pension Fund Manager, and Hymans Robertson LLP (the fund's actuaries, investment consultants and governance consultants).

Investment Performance
The net assets of the fund at 31 March 2022 were £728.3 million, an increase of 5.4% on the 31 March 2021 valuation of £690.7 million. The fund's total investments under-performed compared to the agreed

benchmarks by 0.4% during the year.

With the exception of a small over-performance by the fund's diversified growth investment, all other portfolios under-performed against their respective benchmarks in the year to 31 March 2022, most notably the UK Equity portfolio, which underperformed by 6.0%.

Over the longer term, the fund outperformed annualised benchmark returns for three years (0.6% relative overperformance).

Funding Level

The Fund's last triennial actuarial valuation was undertaken at 31 March 2019, showing a funding level of 95%, compared to 92% at the previous valuation at 31 March 2016. The results of this latest valuation, in terms of revised contribution rates, were implemented with effect from April 2020.

The next formal valuation is being undertaken on 31 March 2022, from which revised employer contribution rates will be implemented from 1 April 2023. As a result, the actuary is not providing an interim funding projection for 31 March 2022, to avoid confusion.

The most recent interim funding projection report was produced at 31 December 2021, which showed that the notional funding level had risen to 102.6% since the last triennial valuation at 31 March 2019, with a resulting surplus of £19 million at 31 December 2021 compared to the deficit of £32 million at the valuation date of 31 March 2019

Governance – pension fund committee

There were five scheduled pension fund committee meetings during the year 2021-22. The first scheduled meeting, the last of the previous administration, was held virtually, using MS Teams. Following the local elections in May 2021, all meetings were held in person at County Hall, Newport, Isle of Wight.

During the year the committee considered the following key items of business:

- An introduction meeting for the new committee members.
- Approval of 2020-21 annual report and accounts.
- Adoption of the fund's governance decision making matrix.
- Updated the fund's risk management policy and agreed the process for the creation of the risk register.
- Implementation of the agreed rebalancing of the fund's equity allocation to include passive management.
- Procurement and contract management activities.
- Knowledge and understanding requirements and activities.
- Regular updates on the ACCESS pool.

In addition, the committee continues to receive presentations from its fund managers on the fund's investment performance as well as performance benchmarking and advice from its investment consultants, Hymans Robertson LLP

Development sessions were held outside the schedule of regular committee meetings, covering an introduction to investment asset classes, decision making, risk management, the ACCESS pool Environmental, Social and Governance (ESG) risk considerations and Responsible Investment (RI) requirements, and the triennial valuation.

As part of the development of the fund's responsible investment activities, the fund received a presentation from the Local Authority Pension Fund Forum (LAPFF) and agreed to join the forum.
The committee also convened an ESG working sub-group, comprising members of the pension fund committee, the pension board and other councillors, which met twice during the year

A summary of committee members' attendance for the year 2021-22 is detailed in table 1 below. Membership of the committee changed throughout the year, but the total number of members remained the same.

**Table 1: committee attendance**

| | Chairman | Vice chairman | Elected member 1 | Elected member 2 | Elected member 3 | Elected member 4 | Elected member 5 | Scheme member rep | Employer rep | |
|---|---|---|---|---|---|---|---|---|---|---|
| 28-Apr-21 | n/a | √ | √ | √ | aps | √ | √ | √ | | 86% |
| | | Change of membership following local elections | | | | | | | | |
| 02-Jun-21 | aps | √ | √ | √ | √ | aps | n/a | aps | | 57% |
| 28-Jul-21 | √ | √ | √ | √ | aps | √ | √ | √ | | 88% |
| 24-Nov-21 | √ | √ | aps | √ | √ | √ | √ | aps | | 75% |
| 16-Feb-22 | √ | √ | √ | √ | √ | √ | aps | √ | | 88% |
| | 75% | 100% | 75% | 100% | 75% | 75% | 66% | 50% | | **77%** |

Please note the percentage attendance at each meeting (final column) is based on a total committee membership of eight (including the scheme member representative but excluding the on-going employer representative vacancy), except where a member had not been appointed for that meeting (shown as “n/a”) when membership is counted as seven.
Also, total attendance by member (final row) is based on post-local election membership, so four meetings.

<u>Governance – local pension board</u>
During the year ended 31 March 2022, the composition of the membership of the local pension board changed.

At the start of the year, membership comprised two scheme member representatives and two employer representatives.
Following the expiry of the term of office for one of the scheme member representatives, and one of the employer representatives in September 2021, the opportunity was taken to amend the membership composition as follows:

- Three scheme member representatives: one of whom is nominated by recognised trade unions and the other two appointed following expressions of interest sought from all active, deferred and pensioner members of the fund.
- Three employer representatives: one an elected councillor of the Isle of Wight Council; one a senior officer of the Council, nominated by the corporate management team; the other appointed from nominations sought from the external employers in the fund.
- An independent chairperson appointed following external advertisement.

Recruitment activity was completed between October 2021 and April 2022. At 31 March 2022, the appointment of all scheme member representatives, the independent chairperson and two of the three employer representatives was completed. The final employer representative was appointed with effect from 1 June 2022.

As a result of the membership issues, only two board meetings were held in 2021-22, with three other meetings cancelled.
The pension fund reported itself to the Pension Regulator in October 2021, for non-compliance with the LGPS regulations in respect of the minimum membership of the local pension board. The Pension Regulator confirmed that it would take no further action on this matter.
The first full meeting of the newly constituted pension board was held on 6 April 2022.

# GLOSSARY OF TERMS

**Accounting policies**
The principles, bases, conventions, rules and practices that specify how the effect of transactions and other events are to be reflected in the financial statements.

**Accruals concept**
Income and expenditure are recognised as they are earned or incurred, not as money is paid or received.

**Amortisation**
An accounting technique of recognising a cost or item of income in the comprehensive income and expenditure statement over a period of years rather than when the initial payment is made. Its purpose is to charge/credit the cost/income over the accounting periods that gain benefit for the respective item.

**Capital charge**
A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services (eg depreciation).

**Capital expenditure**
Expenditure that is incurred to create or add value to a non-current asset.

**Capitalised pension cost**
An additional amount payable by a service to the pension fund where an employee who is below pensionable age has taken early retirement following redundancy without any actuarial reduction being made to their pension. Minimum age limits apply and granting is at the discretion of the employer. Under statute and local arrangement, the amounts payable to the pension fund can be spread over a period not exceeding five years.

**Capital receipt**
The proceeds from the sale of capital asset which, subject to various limitations, can be used to finance capital expenditure, be invested, or repay outstanding debt on assets originally financed through borrowing.

**Cash and cash equivalents**
Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature within 24 hours from the date of acquisition.

**Collection fund**
A fund administered by the council which records receipts from council tax and non-domestic rates, and payments to the precepting bodies (Isle of Wight Council, the Police and Crime Commissioner for Hampshire and Central Government).

**Community assets**
Assets that the council intends to hold indefinitely and which may have some restrictions on their disposal. Eg parks and historic buildings.

**Consistency concept**
This concept requires that there should be a consistent method of accounting treatment of like items within each accounting period and from one accounting period to the next.

**Council tax**
A banded property tax that is levied on domestic properties. The banding is based on property values at as 1991.

**Credit risk**
The possibility that one party to a financial instrument will fail to meet their contractual obligation, causing a loss to the other party.

**Creditor**
An amount owed by the council for work done, goods received or services rendered, but for which no payment has been made.

**Current assets**

Asset expected to be realised within twelve months after the reporting period (including cash or cash equivalents).

**Debtors**
An amount owed to the council for work done, goods supplied or services rendered, but for which no payment has been received.

**Defined benefit scheme**
A pension or other retirement benefit scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

**Defined contribution scheme**
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**Depreciation**
The measure of the deterioration, consumption or other reduction in a non-current asset either as a result of its use, ageing or obsolescence.

**Depreciated replacement cost**
A valuation measure where insufficient market-based evidence of current value is available because an asset is specialised and/or rarely sold.

**Earmarked Reserves**
The council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

**External Audit**
The independent examination of the activities and accounts of local authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure that the authority has made proper arrangements to secure value for money for its use of resources.

**Fair value**
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Finance lease**
An agreement that transfers all the risks and rewards of ownership of an asset. The payments usually cover the full cost of the asset together with a return for the cost of finance. Property, plant and equipment held under finance leases are recognised on the balance sheet at the commencement of the lease and are matched by a liability for the obligation.

**Financial instrument**
A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term covers both financial assets and financial liabilities and includes both the most straightforward financial assets such as trade receivables (debtors) and trade payables (creditors) and the most complex ones such as derivatives.

**Financial Regulations**
These are the written code of procedures approved by the council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

**General fund**
The total services of the council except for the Collection Fund, the Isle of Wight Council Pension Fund and the Fire-fighters’ Pension Fund.

**Heritage Asset**
A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that

is held and maintained principally for its contribution to knowledge and culture.

**Impairment**
A reduction in the value of a non-current asset below its carrying amount on the balance sheet.

**Infrastructure Asset**
A category of property, plant and equipment which generally cannot be sold and from which benefit can be obtained only be continued use of the asset created. Examples are highways, footpaths, bridges and coast protection facilities.

**Intangible Asset**
Assets that do not have a physical substance but are identified and controlled by the entity through custody or legal rights. Examples of intangible assets are patents and software licences.

**International Financial Reporting Standards (IFRS)**
These are defined accounting standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position. The standards provide a method of comparison with financial statements of other entities.

**Investment property**
Property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both.

**Materiality**
An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distorted view given by the financial statements.

**Minimum Revenue Provision (MRP)**
The MRP is the minimum amount which must be charged to an authority's revenue account each year and set aside as provision for credit liabilities, as required by the Local Government and Housing act 1989.

**Net book value**
The amount at which assets are included in the balance sheet ie their historical cost or current value less the cumulative amount provided for depreciation and impairment.

**Business rates (non-domestic rates)**
A levy on business properties based on a Government determined rate in the pound (multiplier) which is applied to a rateable value of the property. Local authorities collect the sums due and retain a proportion of the sums received, with the remaining proportions shared between precepting bodies.

**Non-current assets**
An asset held by the authority for a period greater than one year and is not expected to be disposed of within one year.

**Operating lease**
An agreement in which the council derives the use of an asset in exchange for rental payments, although the risks and rewards of ownership of the asset are not substantially transferred to the council.

**Precepts**
The amount levied by another body, such as the Police and Crime Commissioner for Hampshire and Central Government that is collected by the council on their behalf.

**Private finance initiative (PFI)**
A contract in which the private sector is responsible for supplying services that are linked to the provision of a major asset which previously had been provided by the council. The council will pay for the provision of this service, which is linked to availability, performance and levels of usage.

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

**Provisions**

Amounts charged to revenue during the year for costs with uncertain timing, although a reliable estimate of the cost involved can be made.

**Prudence concept**
This concept requires that revenue is not anticipated until realisation can be assessed. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of the information available.

**Prudential Code**
The Prudential Code for Capital Finance in Local Authorities (the Code) is a professional code that sets out a framework for self-regulation of capital spending. In effect, this allows councils to invest in capital projects which best meet their service delivery objectives as long as they are affordable, prudent and sustainable, subject to government reserve powers to restrict borrowing for national economic reasons.

**Public Works Loan Board (PWLB)**
A government agency which provides loans to authorities at favourable rates.

**Reserves**
Specific amounts can be set-aside as earmarked reserves for future policy purposes or to cover contingencies. Certain reserves are maintained to manage the accounting process for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources.

**Remuneration**
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than cash. Pension contributions payable by either the employer or employee are excluded.

**Revenue expenditure**
The cost of running local authority services within the financial year, for example staffing costs, supplies and transport.

**Revenue support grant (RSG)**
This a Government grant paid to the council to finance general expenditure. It is based on the Government's assessment of how much an authority needs to spend in order to provide a standard level of service.

**Specific government grants**
These are designed to aid particular services and may be revenue or capital in nature. They may have specified conditions attached to them which determine that they can only be used to fund expenditure which is incurred in pursuit of defined objectives (known as ring-fenced grants).

# Narrative Report to the Isle of Wight Council's Statement of Accounts 2021/22

# Introduction

This narrative report has been produced to provide information on the Council, its main objectives and strategies and the principal risks it faces, as well as providing a commentary on how the Council has used its resources to achieve its desired outcomes. It provides a fair, balanced and understandable analysis of the Council's performance and summarises the key elements of the more detailed information included in the statement of accounts. It also signposts other key documents and sources of information that are available if further detail is required.

# The Council

The Isle of Wight Council is responsible for virtually all statutory local government activities on the Island as well as many discretionary services considered to be important to the local community. The Council is composed of 39 councillors who meet to decide the Council's overall policies and set the revenue budget and capital programme each year, as well as holding the Cabinet to account. Our constitution sets out the rules and procedures by which the Council operates.

The Cabinet is made up of the Leader and other councillors, each with a portfolio of responsibilities and is responsible for most day-to-day decisions. The Cabinet has to make decisions which are in line with the Council's overall policies and budget because whilst the budget, plans and strategies will be proposed by the Cabinet, it is Full Council that decides whether to accept or amend these proposals. This is part of the Council's wider governance framework which is reported on annually in an Annual Governance Statement. Please note that this narrative report looks back at our plans and performance over the period 2021/22 and therefore refers to documents and strategies which were in place at that time.

Implementing the Council's policies and budgets are the Council's staff complement which includes some key posts shared with mainland authorities. This gives us the ability to exploit the skills and experience of far larger authorities whilst ensuring that our autonomy is maintained.

Our Councillors and our workforce, along with many other organisations, underwent a massive shift in working practices during 2020, when the national lockdown began in response to the COVID-19 pandemic. Thanks to significant investment in digital technologies in the past few years, we were well placed to respond to this and able to work in smarter and more agile ways to support decision making and maintain key services to our community from the outset. As we gradually move back to the 'new normal' we have tried to ensure that we learn from the lessons of this unprecedented shift and retain those things that worked well.

# Our Strategic Priorities and Direction

In November 2021, the Council's Alliance Administration published the new corporate plan outlining its strategic priorities and direction for the period 2021-2025. The Alliance priorities are set against a clear aim to work together openly and with our communities to support and sustain our economy, environment and people. The corporate plan sets out key areas of activity that will be our main focus and will be central to everything we do:

**Provision of affordable housing for island residents** - we will work to increase the rate of affordable housing. We will need to use public and private assets to increase the availability across the Island. We will work to bring empty properties back into use, including compulsory purchases, encourage housing associations to increase their rate of delivery of new homes and we will look to secure investment that will allow the Council to promote the delivery of affordable homes.

**Responding to climate change and enhancing the biosphere** - an action plan has been introduced to guide the work needed to achieve the climate change strategy of a net carbon zero council by 2030, across the school estate by 2035 and as an island by 2040. We will need to both support and exploit our position as a UNESCO Biosphere Reserve to lever in funding and support for this work. We will work closely with town, parish and community councils to support them in helping to deliver our aspirations and we will challenge the utility companies and our partners to support us in making the Island a sustainable place to live and work. In so doing we will look to also address issues of fuel poverty and health inequalities by making homes more energy efficient and by creating new opportunities for local people to make better use of the landscape to support their well being. Over and above this, going forward, every decision taken must have regard to the need to reduce the Council's and the Island's carbon footprint and enhance our biosphere status.

**Economic Recovery** - the core strengths of the island economy remain as a platform for recovery, the investment in high speed broadband, the increased interest in quality of life, open green space and the highly connection attractions of island life all combine to enable continued promotion of the Isle of Wight as a great place for business. Having good premises and a strong local skills pool are also key factors in helping realise our regeneration ambitions. Our investments with partners in the provision of high-quality business accommodation which reflects the new more flexible requirements of a post pandemic workforce, further supports the island offer. Growing our skills base and retaining our workforce in key sectors such as hospitality and social care will be a key challenge for the next five years as will helping those who have lost time for education to recover and achieve their personal goals. These will be key aspects of our island skills plan.

The corporate plan directs the allocation of the Council's resources to its annual revenue budget and capital programme, which in turn are underpinned by a medium term financial strategy; capital and investment strategies; a treasury management strategy; and a risk assessment of levels of financial balances and reserves. The corporate plan is also underpinned by a risk management framework and performance reporting regime which are reported quarterly throughout the year in the Cabinet Committee papers.

# The Risks

The Council has adopted a risk management framework that records strategic, service, programme and project risks in a risk register which enables us to regularly review and evaluate risks. It also records appropriate plans to mitigate those risks, whether that be by avoiding that activity in future, carrying on and accepting the consequences, transferring some or all of the risk to a third party, taking action to lower the probability or impact of the risk occurring, or exploiting an opportunity that may have arisen as a result of the risk being identified. Cabinet and Audit Committee receive regular reports on risks, in particular strategic risks which are those that have the potential to prevent the council from achieving its strategic priorities and the outcomes detailed in the corporate plan.

The strategic risk ratings for 2021/22 (as reported to cabinet in February 2022), are summarised in the table below with a comparison to the ratings for 2020/21 (as reported in July 2021).



| | 2020-21 | 2021-22 |
|---|---|---|
| Lack of financial resource and the ability to deliver the councils in year budget strategy | RED | AMBER |
| Lack of financial resource and the ability to deliver the councils medium term financial strategy | RED | RED |
| Insufficient staffing and skills | AMBER | AMBER |
| A change in organisational culture fails to keep pace with the speed of organisational change negatively impacting on the delivery of the required transformation to deliver the corporate plan | GREEN | GREEN |
| Failure to improve educational attainment | AMBER | AMBER |
| Failure to identify and effectively manage situations where vulnerable children are subject to abuse | AMBER | AMBER |
| Failure to recruit acceptable quality of professional practice across Adult Social Care and Housing Needs | AMBER | AMBER |
| Failure to identify and effectively manage situations where vulnerable adults are subject to abuse | AMBER | AMBER |
| Failure to secure the required outcomes from the integration of adult social care and health | AMBER | AMBER |
| Independent Social Care Sector Sustainability | RED | RED |
| Failure of the waste contract resulting in significant financial and operational disruption for the council and its residents | AMBER | AMBER |
| Failure of the highways PFI contract resulting in significant financial and operational disruption for the council and its residents | AMBER | AMBER |
| Achieving the vision for the Island | RED | RED |
| Dealing with threats to business continuity (including cyber incidents) | NEW | AMBER |
| Additional demands placed on the Isle of Wight Council and partners owing to pandemic flu or similar large scale outbreaks | RED | RED |

# The Financial Challenge

Since 2011, savings of over £90m will have already been made (over 40% of controllable spend) due to a combination of government funding reductions and increasing demographic pressures, particularly in Adults and Childrens Social Care. Adults social care and children's services represent more than 60% of our controllable spend, but are the hardest in which to manage demand and have historically received significant protection from savings, often resulting in proportionately higher savings across other council services.

The continuing financial impact on the council arising from the COVID-19 pandemic remains extremely uncertain and we have yet to see many commercially provided services (e.g. leisure) begin to recover to pre-pandemic levels of income generation. Resource shortages continue to be an issue, impacting on both our own workforce and that of contractors and we are also experiencing delays in the supply chain for materials, which is largely out of our control. In addition, the cost of living crisis which began to develop in 2021 is now impacting severely on costs associated with those materials (particularly in some of our large building projects). Of course the Council recognises that whilst it struggles with this, many Island families are facing financial hardship from increasing costs across many domestic supplies. The council is committed to supporting the community where it can and whilst many of these issues are worldwide and beyond our influence, we have adopted a corporate plan which includes priorities around economic recovery, affordable housing and climate change.



The Council's Medium Term Financial Plan (MTFP) adopted in 2016 and revised each year, continues to put us in a good position to respond to these challenges and looking forward has a strong focus on regeneration and building financial resilience by:

- Smoothing out savings requirements to avoid 'front loading' and buy time;
- Rebuilding reserves and balances;
- Providing funding to pump prime 'invest to save' initiatives;
- Maximising capital resources that can stimulate economic regeneration, jobs and housing;
- Targeting other resources to regeneration and transformational change; and
- Embedding a financial framework that promotes longer term planning, encourages more responsible spending, improves decision making and aligns financial accountability and discipline.

Continuing to ensure that Island resources are used in the most effective and efficient way to support and protect our community, whilst providing value for money is the most important thing that we must do as a council. Although at this stage, it is too early to have recovery plans set in stone, the Council, along with Government and partners are considering how we move forward, where and how we can use our resources to best help those who need it most, and how we build resilience against possible future events.

# Our Revenue Spending

*Where the Council has costs related to the day to day provision of services e.g. salaries, supplies and services, utilities, etc., these costs are called revenue expenditure. The amount of revenue we can spend depends on the revenue funding we receive from various sources.*

During 2020/21 a COVID contingency was established to provide a good level of surety that the Council would be able to deliver all of its essential services as well as being able to respond to the continuing COVID-19 pandemic and its legacy impact. Draw downs from this contingency during 2021/22 have enabled us to manage the continued financial impact of COVID, particularly around the slow recovery of income generating services such as leisure and car parking, and the impact the pandemic has had on demand for social care. Despite the challenges faced by the Council, it ended the 2021/22 financial year with an underspend of £2.7m (1.7% of the net revenue budget). This has enabled additions to be made to the general fund reserve and the revenue reserve for capital which will support future years financial planning and our ability to prepare our financial statements on a going concern basis.



| By Portfolio | Budget £000's | Actual Spend £000's | Actual Pressure /-saving £000's |
|---|---|---|---|
| Adult Social Care, and Public Health | 55,553 | 55,543 | -10 |
| Children's Services, Education and Lifelong Skills | 29,060 | 29,523 | 463 |
| Community Protection, Digital Transformation, Housing Provision and Housing Needs | 10,169 | 8,788 | -1,381 |
| Environment, Heritage and Waste Management | 6,529 | 6,530 | 1 |
| Highways PFI, Transport and Infrastructure | 17,409 | 17,630 | 221 |
| Leader and Strategic Partnerships | 1,129 | 968 | -161 |
| Planning and Community Engagement | 767 | 600 | -167 |
| Regeneration, Business Development and Tourism | 2,410 | 2,074 | -336 |
| Strategic Finance, Corporate Resources and Transformational Change | 35,479 | 34,067 | -1412 |
| **Total** | **158,505** | **155,723** | **-2,782** |
| NNDR S31 grant adjustments | | 70 | 70 |
| | | | |
| Transfer to General Fund Reserve | | 1,000 | 1,000 |
| Transfer to Revenue Reserve for Capital | | 1,712 | 1,712 |
| **Net final position** | | **158,505** | **0** |

# Our Capital Spending

*The Council can also spend on one off capital projects. These are one off items of spend, which are time limited and create or improve assets that have a life of more than one year, such as buildings, land and equipment.  Once again the amount we can spend on capital projects depends on the capital funding we receive from various sources.*

The table to the right shows spend across the councils portfolio areas and how that was funded.

The Council delivered £28m of capital projects during 2021/22 despite contractor shortages and delays in the delivery of materials. The main areas of spend were in schools including the new build primary schools funded from the Priority Schools Building Programme; in highways with the St Georges Way junction project and capitalised costs within the PFI contract; disabled facilities grants made to support people returning to or staying in their own home; Howard House aiming to provide temporary accommodation and support to the homeless; decarbonisation of council properties; and the development of Branstone Farm, a prime regeneration site for the Island.

Work also commenced on the development of the East Cowes Venture Quays site, the Transforming Cities project in Ryde and the new primary school in Freshwater, all of which will continue in 2022/23.

| Spend by Portfolio | £000's |
|---|---|
| Adult Social Care, and Public Health | 212 |
| Children's Services, Education and Lifelong Skills | 8,814 |
| Community Protection, Digital Transformation, Housing Provision and Housing Needs | 3,094 |
| Environment, Heritage and Waste Management | 3,040 |
| Highways PFI, Transport and Infrastructure | 6,545 |
| Leader and Strategic Partnerships | 0 |
| Planning and Community Engagement | 0 |
| Regeneration, Business Development and Tourism | 5,602 |
| Strategic Finance, Corporate Resources and Transformational Change | 481 |
| **Total Expenditure** | **27,788** |
| | |
| Funded from | |
| Borrowing | 3,691 |
| Corporate resources incl capital receipts | 4,066 |
| Grants | 20,031 |
| **Total funding** | **27,788** |

The Council has budgeted a further £184m for capital schemes over the next 5 years including £41m for coastal protection schemes to protect homes and employment (levering in funding from Government); £12m investment into school buildings (funded mainly from grant); £7m into waste recycling and disposal; £19m for highway improvement and safety schemes (funded mainly from grant); and £80m for regeneration schemes including £40m for housing.

# Balances and Reserves

In general, maintaining adequate reserves is a measure of responsible financial management and strong financial health. They are required in order to be able to respond to "financial shocks" without having to revert to the alternative of quick and severe services reductions. Equally, they can be a vehicle to take advantage of any opportunities that may arise which are in the financial interests of the Council (for example, matched funding opportunities which could lever in additional funding for the Island). Importantly, they also enable differences between expenditure and funding levels to be "smoothed out" and "spread out" in a managed and planned way over time. In accordance with Best Practice, a review of the Council's reserves and balances has been undertaken as part of the budget process. The review considers the Council's potential financial risks over the next few years in order to determine the prudent level of balances that should be retained, based on the Council's risk profile. The assessment of the minimum level of General Reserves takes account of, but is not limited to, the following:

- The agreement to provide for a COVID-19 contingency
- The current relatively low level of General Reserves representing just 2.8% of gross expenditure
- The increasing susceptibility to budget pressures given the magnitude of savings that have been made in the past (i.e. £90m)
- The required level of future savings necessary to remedy the forecast deficit of £6.0m
- The inherent volatility of the Business Rate Retention system both now and in the future
- Potential for reduced Council Tax collection rates associated with the reduced level of support provided by the Local Council Tax Support scheme
- Potential liabilities for some substantial disputes against the Council.

| General Reserves Balances | Actual 2021/22 £m |
|---|---|
| Opening Balance | 13.6 |
| In Year Surplus/Deficit | -1.5 |
| Closing balance | 12.1 |

It is considered, given the weight of financial risk being carried by the Council and the other reserves that are maintained for specific purposes, that the minimum General Reserves that should be maintained is £7.0m.

# Borrowing and Investments

Councils are also allowed in some circumstances to borrow, either to fund capital projects or to ensure that money is available at key points in the month or year, when large payments are due.  The Council tries to minimise borrowing where possible and when necessary take short term borrowing at low interest rates.  Councils can also invest funds where income is received in advance of spend, or where they hold reserves and balances. Our objective when investing money is primarily to protect the sum invested from default before any consideration of the level of return achieved. Note 18 of the statement of accounts details the Council's borrowing and investments. Further information on the Council's borrowing and investments can be found in the Treasury Management Strategy.

# What we delivered

Although many council services were impacted significantly by the COVID-19 pandemic and are still in the process of recovery, the council has also begun to focus on the wider island recovery and positive steps have been made towards achieving our corporate plans key priorities. Some of those achievements include:

- The commencement of the development at Branstone Farm to provide a multi unit business park and housing, expected to complete in 2022/23
- Support for 2 ‘pop up’ shops in Newport in December 2021 selling goods from local providers, and free parking in Newport, Ventnor and Yarmouth on small business Saturday. This followed on from similar pop ups in the summer.
- The purchase of 7 new waste vehicles by the Councils waste contractor, boasting enhanced engine efficiency and greater safety for pedestrians and other road users
- ‘Decarbonisation’ of many of the councils buildings with the introduction of more energy efficient heating and power systems including air source heat pumps and solar power, as well as better doors, windows and insulation being installed
- The connect4communities programme delivered food vouchers to families with young children, care leavers and those in receipt of council tax benefit, provided funding to set up community pantries, and provided grants for community and voluntary organisations and Citizens Advice to provide assistance with fuel and utility bills. In addition a food voucher scheme for children eligible for free school meals was provided for the summer and autumn school holidays.
- 5 e-cycle projects including an e-cycle ‘pop up’ roadshow to introduce people to e-cycles in a safe environment. It welcomed its 500th participant in November 2021, half way to the 1000 target
- Work was completed on an upgrade to the Mews Lane shared use route as part of our work to encourage greater use of cycling and walking
- Work on the new west wight primary school began in November which will provide modern educational facilities for around 210 pupils on the site of the former All Saints Primary School.
- £5.8m was awarded from the Levelling Up Fund to support the regeneration of the East Cowes waterfront and create a new marine hub for the island including improvements to the Columbine building, renovating the Victorian Barracks building, and improvements to the public realm. It will be a first step toward the wider regeneration of East Cowes.
- Nearly £0.5m of funding was awarded from the Governments Rough Sleeping Accommodation Programme to provide 5 units of supported accommodation for local people which be matched with a further £389k from the Council.
- Wightcare received full accreditation from the Telecare Services Association, the national standards body for technology-related care and support services. Wightcare provides a community alarm and telecare services to enable residents to live independently in their own home.

# Our outlook and future plans

The Covid-19 pandemic has had a significant impact on the budget proposals for 2022/23 and for future years. The budgets for 2022/23 have therefore been prepared on the basis of delivering services at pre-pandemic levels with all related costs and income losses met from the Covid-19 contingency. This contingency has been established to provide a good level of surety that the council will be able to deliver all of its essential services as well as being able to respond to the continuing longer term impact of the pandemic.

The impact of COVID-19, inflationary cost pressures and the underlying financial pressures in Children's and Adults Social Care present the most significant challenges in seeking to balance the Budget for the 2022/23. Additional funding to Adult Social Care and Children's Services of £6.0m is provided to ensure that the financial position of these services remains robust both in the short and medium term. It is however recognised that COVID-19 will continue to pose risks to the budgets of Adult Social Care and Children's Services but also to the Council more generally.

The coming financial year was the originally intended date for the Local Government Funding Reform to coincide with the Comprehensive Spending Review. Due to the uncertainty presented by the COVID-19 pandemic, funding reform has been further delayed until at least 2023/24. Funding reform covers the following:



- The "Fair Funding Review", (to determine a new formula methodology which will set each Local Authority's baseline funding level)
- The Retained Business Rates system which involves the removal of all existing growth retained to date (amounting to £7.1m) and re-distributing that growth nationally according to relative need (rather than where it was generated).

The Council's future forecast has been estimated in the context of the uncertainty set out above. For the 3 year period 2023/24 to 2025/26 it is estimated that the Budget Deficit will be £6m. This requires the Council to make incremental budget savings of £2m per annum for each of those years. The Forecast Deficit is predicated on assumed Council Tax increases of 2.99% per annum, representing 1.99% for general purposes and 1% for Adult Social Care. The most significant risk to the Forecast Deficit of £6m is the Local Government Funding Reform described above (and the extent to which it accommodates any "Island Deal") as well as other unavoidable cost pressures that may arise, particularly in Care Services. Taking these risks together, the Forecast Deficit has the potential to vary by between +/- £3m which when spread over 3 years would vary the annual savings requirements by +/- £1m per annum.

During this unprecedented level of uncertainty, it is imperative that the Council continues to plan for savings of £2.0m per year in the future, retaining the COVID-19 Contingency and General Reserves at the levels agreed in February 2022 so as to retain the necessary financial resilience to be able to respond in all circumstances.

Chris Ward
Section 151 Officer

Purpose: For Decision

# Committee report

| | |
|---|---|
| Committee | **AUDIT COMMITTEE** |
| Date | **20 MARCH 2023** |
| Title | **ANNUAL GOVERNANCE STATEMENT 2021-22** |
| Report of | **CHIEF EXECUTIVE** |

## EXECUTIVE SUMMARY

1. This report provides Councillors with details of the statutory requirements under the Accounts and Audit Regulations 2015 to undertake an annual review of the effectiveness of the council's system of internal control and the considerations that Councillors need to take into account when reviewing the content of the review completed for 2021-22

2. The annual governance statement for 2021-22 is located at Appendix 1, together with Addendum A: The Isle of Wight Council's governance framework. Councillors are now asked to approve the statement in readiness for signing by the leader of the council and chief executive and submission with the annual accounts for 2021-22.

## RECOMMENDATION

3. Option 1 – Audit Committee agree the content of the draft annual governance statement 2021-22 and confirm this as the Final version for publication.

## BACKGROUND

4. The council follows guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) as to what the annual governance statement should address. The council's leader and chief executive are required to sign the final statement before it is published alongside the annual accounts. When making the statement, it is important that any weaknesses are identified, and corrective actions are also developed to address those weaknesses.

5. The Chair of Audit Committee was provided with a draft annual governance statement for consideration and to highlight any further items or concerns that needed inclusion within the final document prior to presentation at the Audit Committee Meeting.

6. The final annual governance statement for 2021-22 and its associated addendum are now set out at Appendix One for further consideration and approval by the committee.

THE COMMITTEE'S ROLE IN RELATION TO THE ANNUAL GOVERNANCE STATEMENT

7. The Audit Committee plays an important part in the process of developing the council's annual governance statement, which stems from its role and core activities throughout the year, including:
   - its understanding of the robustness of the regime of internal control throughout the council because it receives reports from both internal and external auditors.
   - its review of the strategic and other risks of the council and the annual report it receives on the council's risk management arrangements.
   - receiving regular updates on issues which have been identified previously in reviews of governance.
   - receiving reports on the extent of fraud and other irregularity and on the level of whistleblowing activity.
   - receiving reports on procurement and treasury management activity.
   - receiving an annual opinion report on the adequacy of control operating within the council from the council's head of internal audit
   - reviewing the committee's core functions (which is specifically included within the scope of the annual governance statement)

8. The committee is well placed therefore to reach its own assessment of the quality of governance that operates within the council supported by the assessment that has been undertaken by council staff.

9. The action plan contained within the annual governance statement aims to address the governance issues highlighted thus far that are considered necessary to contribute to further strengthening the council's corporate governance arrangements

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

10. Corporate governance has far reaching implications for the effectiveness of the council and as such underpins the effective delivery of all the council's stated priorities. Good governance means the following.
    - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
    - Ensuring openness and comprehensive stakeholder engagement.
    - Defining outcomes in terms of sustainable economic, social, and environmental benefits.
    - Determining the interventions necessary to optimise the achievement of intended outcomes.
    - Developing the council's capacity, including the capability of its leadership and the individuals within it.
    - Manging risk and performance through robust internal control and strong public financial management.
    - Implementing good practices in transparency, reporting and audit to deliver effective accountability.

## CORPORATE PRIORITIES AND STRATEGIC CONTEXT

11. The content of this report does not directly impact upon any of the corporate priorities outlined in the Corporate Plan 2021 – 2025 and underpins the core value of being fair and transparent.

## CONSULTATION

12. Internal consultation has taken place in developing the statement using a self-assessment survey. Internal audit designed the survey to assess the service area knowledge and compliance with all aspects of the governance framework. This was completed by directors and service leads from all areas of the council along with those lead departments who have responsibility for the issues, systems and processes set out in Appendix 1, the chief internal auditor and the council's Corporate Management Team.

## FINANCIAL / BUDGET IMPLICATIONS

13. There are no direct financial implications of the council reviewing its governance arrangements and publishing the annual governance statement itself. However, action plans to address any weaknesses identified could involve extra cost and may in some circumstances be significant. Conversely action plans could also lead to financial savings being secured. It is considered that all the activities set out in the action plan contained within the annual governance statement can be achieved from within existing resources.

## LEGAL IMPLICATIONS

14. The council is required by the Accounts and Audit Regulations 2015 to:
    - carry out a review of the effectiveness of its system of internal control.
    - have the findings of the review considered by a committee or by Councillors of the authority.
    - approve an annual governance statement on the results of the review in advance of the approval of the statement of accounts.
    - ensure that the statement accompanies the council's statement of accounts (when published).

## EQUALITY AND DIVERSITY

15. The council, as a public body, is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation.

16. There is no impact on any of the protected characteristics arising from this report.

## PROPERTY IMPLICATIONS

17. There are no property implications arising from this report.

OPTIONS

18. Option 1 – Audit Committee agree the content of the draft annual governance statement 2021-22 and confirm this as the Final version for publication.

19. Option 2 – Audit Committee note the content of the annual governance statement and make recommendations for further matters to be considered in the preparation of the final statement in readiness for publication alongside the annual accounts.

RISK MANAGEMENT

20. It is a legal requirement under the Accounts and Audit Regulations 2015 to undertake a review of the effectiveness of the council's corporate governance arrangements and to seek approval of the resulting statement from a committee to enable its publication alongside the council's statement of accounts. Failure to approve the statement, with or without any proposed amendments will mean the council is in breach of its statutory duty.

21. The key risk associated with the council's proposed governance statement is that it does not accurately reflect that the corporate governance arrangements are consistent with the national code of practice and that full consideration has been given to afford the assurance to the committee. This could result in significant weaknesses going unreported and, critically, unaddressed. However, a significant amount of work has been undertaken to assess and review evidence available and this has been subject to review by Internal Audit, Corporate Management and other key stakeholders in order to mitigate against this. Presentation of the AGS in draft format to this committee for scrutiny is a further mitigating factor

EVALUATION

22. Option 1 is recommended on the basis this report provides Councillors with details of the statutory requirements under the Accounts and Audit Regulations 2015, including the need to undertake an annual review of the effectiveness of the council's system of internal control.

23. The report provides the Councillors with the evidence they need to consider when reviewing the content of the review completed for 2021-22.

APPENDICES ATTACHED

24. Appendix 1 – Annual Governance Statement 2021-22

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WENDY PERERA
*Chief Executive*

COUNCILLOR CHRISTOPHER JARMAN
*Cabinet Member for Strategic Finance, Corporate Resources and Transformational Change*

Isle of Wight Council

# Annual Governance Statement

**2021-22**

# Contents:

## 1. Introduction

Governance within an organisation in its simplest form is about who has authority to act, who can take decisions, and how the organisation is kept accountable for the decisions it makes. These basic principles are translated into processes that facilitate the making and implementing of decisions. This is not about making “correct” decisions but about having processes in place that assist with making the best possible decisions with ultimately better outcomes being secured. It can be said that good decision-making processes and therefore good governance share several characteristics which include:

- ***Good governance is accountable*** – local government has an obligation to report, explain and be answerable for the consequences of decisions it has made on behalf of the communities it represents.
- ***Good governance is transparent*** – people should be able to follow and understand the decision-making process. This means that they will be able to clearly see how and why a decision was made, what information, advice and consultation was considered together with any risks identified, mitigating actions and legislative requirements (where relevant) were considered.
- ***Good governance follows the rule of law*** – which means that decisions are consistent with relevant legislation or common law and are within the powers of the council to act.
- ***Good governance is responsive*** – local government should always seek to serve the needs of all its communities and the priorities identified by them (as reflected in the council’s Corporate Plan), while balancing competing interests in a timely, appropriate, and responsive manner.
- ***Good governance is equitable and inclusive*** – a community’s wellbeing stems from all its councillors feeling that their interests have been considered by the council in its decision-making process. This means that all groups, particularly the most vulnerable, should have opportunities to participate in the process.
- ***Good governance is effective and efficient*** – local government should implement decisions and follow processes that make the best use of available resources, and time to ensure the best possible outcomes are secured against its agreed priorities.
- ***Good governance is participatory*** – anyone affected by or interested in a decision should have the opportunity to participate in the process for making that decision. This might be by being provided with information, asked for their opinion, or given the opportunity to make recommendations to be taken into consideration.

In order to evaluate good governance in practice, there is a statutory requirement under the Accounts and Audit (England) Regulations 2015 for every local authority to prepare and publish an annual governance statement. This provides members of the public with an open assessment of how effective the council’s governance arrangements are considered to be against a code of corporate governance entitled “Delivering Good Governance in Local Government 2016”. This document is published by CIPFA/SOLACE as recognised national lead bodies for public services.

The code considers the characteristics of good governance set out above and translates them into specific core activities, including how a council:

- Upholds high standards of conduct and behaviour
- Engages with local people and other stakeholders to ensure robust public accountability
- Creates and implements a vision for the local area
- Determines the interventions necessary to optimise the achievement of agreed outcomes
- Develops the capacity and capability of councillors and council staff to be effective
- Takes informed and transparent decisions that are subject to effective scrutiny and risk management
- Has councillors and council staff that work together to achieve a common purpose

This document therefore provides:

- An overview of the Isle of Wight Council's governance arrangements in place against the core activities set out in the code of corporate governance and characteristics of good governance set out above, underpinned by an honest self-assessment of their effectiveness for the period 2021/22.
- An action plan for the coming year to address any identified areas of concern.
- A report on progress made against those areas highlighted for improvement in its 2020/21 annual governance statement.
- Analysis and feedback from the new self-assessment survey undertaken by the council's internal audit team.

In its preparation, the statement contained within this document, covers the council's significant corporate systems, processes and controls that are designed to ensure that:

- Laws and regulations are complied with
- Council policies are implemented in practice
- Required processes are adhered to
- High quality services are delivered efficiently and effectively
- The council's values and ethical standards are met
- Performance and financial statements and other published information are accurate and reliable
- Human, financial, and other resources are managed efficiently and effectively

## 2. The Council's responsibilities

As a public body, the council is responsible for carrying out its business in line with the law and proper standards to ensure that public money is safeguarded, properly accounted for, and used economically, efficiently, and effectively.  There is also a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way the council's functions are exercised, having regard to a combination of economy, efficiency, and effectiveness. To do this, there must be in place a robust set of arrangements for the governance of its affairs and in facilitating the effective delivery of its functions, including arrangements for the management of risk and for dealing with any issues that may arise from them.

## 3. The purpose of a governance framework

To assist with the delivery of good governance, each council has a local governance framework that brings together all the relevant legislative requirements, governance principles and activities (as described above), corporate strategies and policies, business systems, management processes together with an operating culture and set of values upon which business is conducted. The quality of these arrangements underpins the level of trust in public services and is fundamental to the delivery of the council's statutory and democratic obligations. A governance framework therefore allows the council to be clear about how it discharges its responsibilities.

A system of 'internal control', designed to give assurance of operational effectiveness, is a significant part of operating the council's governance framework, and is also designed to assist with the management of risks to a tolerable level. However, it is important to note that it is not possible to eliminate all risks and can only serve to demonstrate reasonable assurance of effectiveness. The management of risk is an ongoing process, designed to identify and prioritise the risks associated with the achievement of the council's key priorities, policies, aims and objectives, to evaluate the likelihood of those risks occurring and to manage their impact should they happen.

## 4. The Isle of Wight Council's governance framework

The Isle of Wight Council's local governance framework is designed to be consistent with the CIPFA/SOLACE Delivering Good Governance in Local Government code of practice. The framework summarises the council's internal arrangements that have been put in place to ensure that there is effective governance and includes hyperlinks to supporting documentation and can be found at Appendix A to this document.

The overarching aim of good governance is to ensure that the council achieves its intended priority outcomes, while acting in the public interest at all times. The following text provides a high-level overview of the key elements of the structures and processes in practice that form an essential part of the council's governance framework against the code of practice and each of the governance indicators and their descriptors of what good governance should look like.

Strategic partnerships are becoming an increasingly important element of the council's corporate growth strategies helping pool knowledge and resources to deliver better outcomes for the island population and its visitors. Whether this be by direct service provision in partnership, by alternative innovative service delivery mechanisms or simply by exerting influence to deliver better social value outcomes as well as value for money. The governance framework is taken into account when considering significant partnerships approaches and the governance arrangements for the partnerships developed and reviewed to ensure they meet the requirements of the specific partnership.

The local delivery arrangements are identifying strategic issues and opportunities to challenge some of the current approaches to delivery and investment. The council is seeking to better align planned investment expenditure to key corporate priorities to accelerate improvement opportunities. An example of this is through the current activity being formalised via the Isle of Wight Integrated Care Partnership (ICP) that aims to align strategic needs around the health and social care local system needs in accordance with the new legislation permitting such arrangements. Areas of joint commissioning and provider committees seek to align to shared governance arrangements and funding agreements.

**Principle 1: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law:**

The council's constitution sets out how it conducts its business, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent, and accountable to local people. Some of these processes are required by law, while others are a matter for the council to determine. The constitution is divided into 6 main parts, with a number of sub sections that set out the basic rules governing the council's business with more detailed procedures and codes of practice provided in support of their delivery. The constitution is updated at least annually, usually at Annual Council and may be updated more frequently if there are changes in any legislation affecting the contents of the constitution.

- There is a code of conduct for councillors and council staff which sets out the expected behaviour and standards to be adhered to.

- The Monitoring Officer is a statutory function and ensures that the council, its staff, and councillors maintain the highest possible standards of conduct in all they do. The designated Monitoring Officer for the Isle of Wight Council is the Assistant Director of Corporate Services and holds responsibility for monitoring and reviewing the operation of the council's constitution, ensuring compliance with established policies, procedures, laws, and regulations and for reporting any actual or potential breaches of the law or maladministration to the Full Council and/or Cabinet.

- The council is committed to achieving the highest possible standards of openness and accountability. It has in place a "whistleblowing policy" which reflects the legal framework and obligation to enable staff or those delivering services on behalf of the council, without recrimination, to raise concerns about conduct that may be unlawful, of financial malpractice, presents a danger to the public or the environment, affects the general welfare of the public or integrity of public services. The policy sets out how to report a concern and what action to take together with details of how concerns will be investigated and the protections afforded to whistleblowers, as well as the provision of access to an independent “hotline” reporting facility. Reported concerns are reviewed annually by the Audit Committee.

- As part of the council’s commitment to the safeguarding of public funds, there is an “anti-fraud, bribery and corruption” policy and strategy that sets out the process to be followed where there is suspicion of financial irregularity.

- The Section 151 Officer is a statutory function that requires a member of staff who must be appropriately qualified to be responsible for the financial administration of the council. The designated Section 151 officer for the Isle of Wight Council is the Director of Finance.

- There is a complaints procedure for dealing with any complaints related to the delivery of council services which is available on the council’s website. If complainants remain dissatisfied, they have the right to refer the matter to the Local Government and Social Care Ombudsman (LGSCO) and complainants are informed of this right. The monitoring and learning gained from complaints is reported through the council’s performance report to Cabinet. In accordance with legislation there are also separate procedures in place for complaints relating to Children’s services and Adult Social Care. Complaints about councillors are dealt with under the councillor’s code of conduct.

**Principle 2: Ensuring openness and comprehensive stakeholder engagement:**

- The council recognises that effective community engagement is an essential contribution to strong corporate governance. A variety of ways to engage with its communities and stakeholders are utilised to assist. The “How The Council Works” section of the council’s website provides access to the published forward plan which provides an indication of future reports that are to be considered together with agendas and minutes of all public committees. This ensures that people know what decisions the council is planning to take as well as the decisions taken. It provides access to a facility for making general complaints about council services and about councillors where their conduct is in question. The process to follow is set out clearly. There is also a facility for e-petitions to be launched and submitted on matters that are important to local people.

- The Your Council section of the council’s website provides information on latest news and updates on council services together with a range of information that is available for the public scrutiny in accordance with the code of recommended practice for local authorities on data transparency. There are details of all Current Consultations (iow.gov.uk) where residents and stakeholders can voice their opinions and assist with shaping service delivery.

- There is a strong focus on youth participation and the Isle of Wight Youth Council provides opportunity for young people to influence how services are delivered, highlight issues that need to be reviewed and to help shape public services for our communities.

- The council operates a Corporate Scrutiny Committee whose remit is to review and challenge the policy decisions that are taken by Cabinet. Scrutiny is supported by three policy and scrutiny panels (Health and Social Care, Children's Services, Education and Skills, Neighbourhoods and Regeneration) who aid the Cabinet in the development of council policy together with a review of any matter relating to these specific service areas. They assess how the council is performing and see whether they are providing the best possible, cost effective services for the Island's communities. In addition, there is an Audit Committee whose specific remit is to review the council's financial and non-financial performance as well as to receive reports that deal with issues that are essential for good governance. Each committee has its own terms of reference.

**Principle 3: Defining outcomes in terms of sustainable economic, social, and environmental benefits:**

- The council's corporate plan is the key strategic document that sets out its vision and ambitions for the Island. The plan sets out the priorities, the outcomes that are expected to be achieved, what it will do to deliver them and what measures it will use to monitor progress against their successful achievement. The corporate plan is underpinned by a number of directorate plans, prepared by directors, that include the operational detail for core business that must be delivered, plans for improvement, development or change, financial planning, key risks and their management/mitigation as performance measures and monitoring arrangements.

- Quarterly reporting on progress against the delivery of agreed priorities and outcomes is undertaken by Cabinet and which is also available to the scrutiny committee for review.

- Central to the delivery of the corporate plan is the council's medium term financial strategy which plays a pivotal role in translating ambitions into action. The strategy focuses on determining the overall financial position for the council and considers any major issues affecting the council's finances. It forms the basis for developing the overall budget, and any contingencies that need to be put in place for any unavoidable service pressures that may arise and the ongoing impact of COVID-19.

- All committee reports require an assessment of the carbon impact of the options considered. As part of the call over process the Council's Principal Officer (Environment) is given sight of all papers for comment, every decision taken must have regard to the need to reduce the council's and the Island's carbon footprint.

**Principle 4: Determining the interventions necessary to optimise the achievement of intended outcomes:**

- Underpinning the delivery of the corporate plan are a series of directorate plans that translate the council's priorities and outcomes expected to be achieved into operational service delivery activities. Each of the directorate plans has a suite of performance measures that enable critical delivery requirements to be tracked and monitored. The directorate plans now include a section that identifies the workforce resources required to deliver the outcomes required. These plans are used by HR, to support services in their recruitment, retention and succession planning which enable the council to develop and maintain an effective workforce.

To allow the transition of the council's priorities into their most granular form, the council also operates a "personal performance management framework" through which staff and managers agree individual performance objectives that play an important part in achieving the overall desired outcomes. These objectives are also supported by any relevant learning and development required to successfully achieve them.

Monitoring of progress against targets is undertaken on a number of levels, from strategic quarterly performance reporting to Cabinet, to service boards that measure performance against agreed business plans to regular discussions between managers and staff to review operational and day to day business performance.

The council also has a robust decision-making framework in place that requires all reports to be subject to the corporate "call over" clearance process prior to publication. This process was reviewed and strengthened in 2021. All reports follow a standard template that provides the decision maker with all the relevant information and advice necessary to make an informed decision. Reports provide background information; details of the issue under consideration and includes options open to the decision maker together with the pros and cons of each of those options in order to provide a recommended course of action if required. Professional advice in respect of any considerations of a legal, financial, equality, risk, impact on young people and future generations, and the UNESCO Biosphere and Climate & Environmental impacts are clearly set out as is any consultation that has been undertaken to assist with the decision.

- The council's Corporate Scrutiny Committee scrutinises items on the council's forward plan and acts in the capacity of critical friend to the Cabinet prior to decisions being taken. Scrutiny meetings are held in public where members of the public have the opportunity to ask questions or submit questions in writing to the committee.

**Principle 5: Developing the council's capacity, including the capability of its leadership and the individuals within it:**

- The council operates a robust interview and selection process to ensure that offers of appointment are based upon securing the right level of skills and experience to fulfil the role. If working with children and/or vulnerable adults the necessary clearance checks are undertaken prior to appointment. There is a corporate induction programme that welcomes new staff into the council, assisting with understanding of the council's priorities and ambitions as well as the prevailing culture and expected standards of behaviour. It provides a wide range of information on how the council operates and the key policies that new starters need to be aware of.

- There is a corporate core learning and development programme that sets required activities for new staff to complete and for existing staff to receive by way of updates. There is also a core learning and development programme for managers designed to ensure they are fully conversant with their people management responsibilities. These learning programmes have been included in the council's Learning Hub which enables staff to undertake and record training events, and managers to access reports on training uptake.

- There is a full complement of appointments to the corporate management team, all of whom are appropriately qualified and experienced in their field and capable of providing strong, resilient, and stable corporate leadership.

- The council has a number of strategic partnerships to enable the capacity of a small unitary council to be maximised to its full potential. Strategic partnerships include the management of the council's children's services and public health with Hampshire County Council; Portsmouth City Council for the provision of a Director of Finance and Section 151 Officer and Chief Internal Auditor roles.

- There are learning and development programmes in place for aspiring leaders and managers that aims to improve the council's future succession planning arrangements and which also seeks to facilitate engagement and empowerment of future talent in the development of the council's critical business priorities and intended outcomes. The Council's successful approach to the use of the Apprenticeship Levy has led to an increase in existing staff accessing development programmes which assist with succession planning.

- Newly elected councillors are provided with a comprehensive induction programme that assists with full understanding of their roles and responsibilities, political management and decision making, financial management, health and safety, information governance, safeguarding and code of conduct.

- Councillors are provided with a regular calendar of events that aims to provide a wide range of on-going learning and development in specific areas of council activity, legislative changes, and personal skill development. Access to the local government association leadership academy is afforded to cabinet members and aspiring cabinet members and other relevant external or on-line learning opportunities are made available to enable specific portfolio or areas of interest to be developed.

**Principle 6: Managing risk and performance through robust internal control and strong public financial management:**

- The council has in place frameworks for risk and performance management alongside the strategy and policy that sets out the framework arrangements and responsibilities for the successful delivery of agreed priorities and intended outcomes. The risk policy was refreshed in February 2023 and is intended to assist council staff at all levels in applying sound risk management principles and practice across their areas of responsibility. Risks and performance are monitored and reported to corporate management team and review is undertaken by the Corporate Scrutiny Committee.

- The council has two major, long term commercial contracts in place for highways and waste service delivery both of which have their own contract management team, councillor boards and delivery boards to maintain oversight and formal monitoring of performance.

- The council's financial management arrangements conform to the governance requirements of the CIPFA "statement on the role of the Chief Financial Officer in local government (2016)". The Chief Financial Officer is professionally qualified; is a member of the corporate management team; has input into all major decisions; advises Cabinet on financial matters and is responsible for ensuring that budgets are agreed in advance, are robust and that the finance function is fit for purpose. The Chief Financial Officer is the Director of Finance and Section 151 Officer.

- The council's assurance arrangements also conform to the governance requirements of the CIPFA "statement on the role of the Head of Internal Audit (Chief Internal Auditor) in public service organisations (2016)". The Chief Internal Auditor is professionally qualified and leads on the review and adequacy of the council's internal control environment. Where necessary, to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to the Chief Executive, Section 151 officer; Monitoring Officer and Councillors, especially those who serve on committees charged with governance.

**Principle 7: Implementing good practices in transparency, reporting and audit to deliver effective accountability:**

- The council's constitution is refreshed at least annually and sets out how decisions are made, it makes specific reference to decision making by Full Council, Cabinet, and other established committees. There is also a scheme of delegations that describes the limits of responsibilities that can be delegated to the Chief Executive and chief officers (and who in turn may delegate further as appropriate).

  The council is committed to openness and transparency and now publishes a significant amount of data and information in order to increase its accountability to residents. There are dedicated transparency pages on the council's website that provides access to the council's spend transactions month by month; statement of accounts; performance monitoring; councillor allowances and declarations of interest; budget consultation outcomes; workforce data and pay policy setting out the council's terms and conditions of employment; trade union facility time; councillors questions and contracts to name but a few.

- The council publishes a Forward Plan of all key decisions which are proposed to be taken and other decisions where practicable to assist in providing public transparency and confidence in decision making. All committee agendas and minutes of constituted committees are also published on the council's website and in accordance with publication timescales.

- All reports requiring a decision are considered by appropriately professionally qualified legal and finance staff prior to publication and all advice is made public within the report template. The council must also ensure that it meets its duties and obligations under the Equality Act 2010, and any proposals for changes to service delivery, projects or policies have regard to equality when being considered to better understand whether they impact on people who are protected under the Act and to assist with informed decision making.

- A Local Government Framework has been used as a basis for self-assessment and a baseline for the council's current equality and diversity provisions. An action plan has been developed to monitor progress and this is monitored through the Equality and Diversity Board.

**5. Assessment of the longer-term disruption and consequences arising from the coronavirus pandemic:**

Projects and programmes that were put on hold have restarted with the inevitable delays planned into future project timescales.

As part of the recovery programme there is a regular meeting of the council and key partners which oversees the recovery phase from the Covid-19 pandemic. This group agreed the restoration and renewal priorities of service areas and continues to consider the wider community impacts.

The audit plan for 2021/22 was prioritised to those areas most affected by the covid response activity to ensure adequate assurance of systems and processes in the longer term.

6. **Financial Management Code 2019:**

A key goal of the Financial Management Code is to improve the financial resilience of organisations by embedding enhanced standards of financial management. Inevitably, the impact of Covid-19 had tested that financial resilience and will continue to do so in coming years. There are clear links between the Financial Management Code and the Governance Framework.

2020/21 was a 'shadow' year for the introduction and implementation of the Financial Management Code 2019 with full implementation during 2021/22.

A key goal of the Financial Management Code is to improve the financial resilience of organisations by embedding enhanced standards of financial management. Inevitably, the impact of Covid-19 had tested that financial resilience and will continue to do so in coming years. There are clear links between the Financial Management Code and the

Governance Framework.

A significant amount of the Code is part of the council's current and ongoing activity. To provide the required evidence of compliance the Section 151 Officer requested a full review to assess the level of compliance of the council's current policies, systems, and processes against the new Financial Management Code. The review evidenced that the council's financial regulations policies and procedures continue to meet the code requirements.

The medium-term financial plan, which started in 2016, has not changed significantly since that date. The annual budget report is the mechanism for those in year changes to be identified and actioned dependent on the priorities and plans of the council.

## 7. The annual review of effectiveness

The council is required to undertake, at least annually, a review of the effectiveness of its governance framework, through the internal audit assurance process and self-assessment survey, including the system of internal control. The outcomes of the review are considered by the Corporate Management Team and Audit Committee (who approve the final statement). Once approved, the annual governance statement is published alongside the council's statement of accounts.

In reviewing the council's governance framework arrangements and in order to complete this assurance statement, there are a number of assurances drawn from the following sources:

- Full council, Cabinet, and other key decision-making committee outcomes
- Outcomes from Scrutiny committees and Audit Committee
- The Monitoring Officer, Section 151 Officer and Chief Executive
- Corporate service departments
- Internal audit report on the annual governance statement
- Internal audit annual opinion
- Internal audit self-assessment survey and report
- The Annual Governance Statement Self-Assessment
- Risk, performance, and financial reports
- The Strategic Equality and Diversity board
- The Strategic Health and Safety board
- Customer complaints and feedback
- Freedom of Information requests
- Data protection and information governance issue
- Health and Wellbeing Board
- External audit reports
- External inspections and peer reviews
- Benchmarking activity
- Evaluation of progress against previously identified governance issues

This all supports the completion of a self-assessment statement which covers the key processes and systems that comprise the council's governance arrangements and is intended to identify any areas where improvement or further development is required.

## 8. Governance issues – Part One - Progress Against the 2020/2021 Self-Assessment

The completion of the self-assessment for 2020/21 did not highlight any significant governance failures. However, the following issues were identified as areas where improvements could be made:

| | Governance issue | Actions to address the issue | Measure of success | Progress to Date |
|---|---|---|---|---|
| 1 | Lack of consistent compliance with policy process legislation, further complicated by the ability to provide this assurance with the work from anywhere model.<br><br>*Examples of audits where this has been identified are: Digital / CCTV / Schools / Insurance / accounts receivable / accounts payable / SARS etc.* | Follow up audits will revisit the areas to be actioned and will be reported through the Audit Committee and CMT.<br><br>**ACTIONS COMPLETED** | Reduction in the number of cases and areas reported as not complying with appropriate policy and process. | Results from the analysis of the "full" audits completed during 2021-22 indicate significant improvement under compliance with 15/29 of areas tested achieving 'assurance'. 12/29 were rated as 'reasonable assurance' and only 2 were noted 'limited assurance' these cover Deprivation of Liberty Standards and School Landlord Responsibilities.<br><br>Following consultation with key managers across the Council an agreed set of policies/key documents, relevant to the AGS, has been identified and agreed between Internal Audit and the Organisational Intelligence Team.<br><br>In November Internal Audit validated policies/key documents as part of the annual AGS assurance exercise, to confirm those that have been reviewed and updated and those that still require a refresh. This continues to be monitored on a regular basis through Corporate Management Team. |

| | Governance issue | Actions to address the issue | Measure of success | Progress to Date |
|---|---|---|---|---|
| 2 | Introduction of the CIPFA Financial Management Code | Review of activity and compliance with the new code.<br>Identification of changes needed to address gaps or limitations in compliance with the FM Code.<br><br>**ACTIONS COMPLETED** | IWC financial policies and processes continue to meet the standards required by the CIPFA Financial Code. | Self-assessment review has been undertaken by the Assistant Director of finance to assess the compliance of the council's policies, procedures and guidance following the revision of the code.<br><br>There are very few amendments to the financial policies required. The council's systems of internal control continue to meet the code requirements.<br><br>The financial policies themselves may change very slightly in some areas and a full update is planned for early 2023. |
| 3 | Compliance with Risk Management Framework at service level needs to be tested | Relaunch of the council's risk management framework and internal risk management system.<br><br>Risk Management Audit<br><br>AGS self-assessment survey and sample testing<br><br>**ACTIONS COMPLETED** | Service risks are reported effectively to all service boards and escalated where necessary.<br><br>Services utilise the council's risk management system or have evidence of adequate alternative reporting in place | All Directorates are making use of the IWC Risk Management Framework to some level. Where service (Directorate) Boards take place risk is discussed.<br><br>The majority use the IWC Risk Management System (IWRMS) except Childrens Services who use arrangements put in place by Hants CC.<br><br>Actual Risk Management arrangements and progress towards implementing enhanced arrangements were reviewed as part of the 2021/22 Audit Programme.<br><br>The findings from the review were generally positive with only two medium and one low risk exceptions raised. |

| | Governance issue | Actions to address the issue | Measure of success | Progress to Date |
|---|---|---|---|---|
| | | | | Actions agreed focussed on implementing consistent arrangements across the Council, specifically to ensure there is sufficient corporate visibility of risk across the Council and how this is being mitigated/managed.<br><br>Internal Audit were able to validate progress made at the January 2023 review. |
| 4 | Compliance with the council's performance management framework and links to the corporate plan | Refresh of directorate service plans and team plans to identify key areas of performance linked back to the refreshed corporate plan priorities.<br><br>Refresh of data book metrics and measures reported to the corporate management team and through the quarterly performance monitoring reporting to cabinet.<br><br>**ACTIONS COMPLETED** | Service plans reflecting the corporate priorities, feeding into team plans and down to individual performance plans.<br><br>Effective reporting of performance against each of the corporate plan outcomes. | Directorate Plans have been produced that assign all objectives from the Corporate Plan to the most appropriate directorate and detail what performance measures are in place to monitor delivery and what risks have been identified to the delivery of those objectives.<br><br>Reporting against each of the Corporate Objectives is included within the Quarterly Performance Management Report to Cabinet.<br><br>Performance measures were reviewed as part of the transfer to a new performance management system in March 2022 and will be done so again periodically.<br><br>Internal Audit noted in its 2021/22 AGS Report that the Performance Management Framework had been revised and did not identify any significant issues regarding how this is operating.<br><br>Following Internal Audit's annual risk assessment (informed by above) no specific audits are |

| | Governance issue | Actions to address the issue | Measure of success | Progress to Date |
|---|---|---|---|---|
| | | | | scheduled for 2022/23 on Performance Management. High level arrangements for Performance Management will be reviewed as part of the annual assurance exercise of the AGS. |
| 5 | Post-election there will be a need to support the audit committee in the delivery of its duty. | Training and development support to new councillors<br><br>Completion of the self-assessment tool for successful audit committees through CIPFA<br><br>**ACTIONS COMPLETED** | Induction plans in place and completed by all councillors<br><br>Assurance that the audit committee have been supported to understand and undertake their roles on the committee effectively. | A comprehensive induction programme was put in place to provide newly elected members with the information and knowledge required to fulfil their duties and responsibilities. This included specific mandatory pre-requisite training requirements for those councillors nominated for the licensing and planning committees. There is a dedicated area of the council's learning management system for councillors to access a range of e-learning modules and other sources of information and support, including the LGA.<br>A training needs analysis has been undertaken to identify their on-going development needs. There is also a councillor development group in place, designed to co-ordinate and develop learning activities on common matters of interest for councillors.<br><br>The CIPFA self-assessment tool has been completed by committee members. A specific learning event is also scheduled to take place for committee members to afford continued learning in respect of the roles and responsibilities of the committee members and to enhance the effectiveness of the work of the committee. |

**Governance issues – Part Two: Action Plan from the 2021/22 self-assessment:**

Over the course of 2021/22 Internal Audit has completed all 54 reviews within the review plan. These include a combination of full audits (29), follow up reviews and grant verifications.

Across all areas of the audit plan, no audit has resulted in a 'no assurance' opinion and only three areas have been rated as 'limited assurance'. In addition, there has been improvement noted relating to the implementation of agreed actions, as evidenced in follow up reviews, where actions have been closed in a timely manner. All of these results indicate a stable internal control framework.

The types of issues identified through 2021/22 are consistent with those identified during 2020/21, for example governance, management reporting, and general compliance are common themes, although all show an improvement from the previous year.

The overall annual opinion will therefore remain at **'reasonable assurance'**.



| | **Governance issue** | **Actions to address the issue** | **Measure of success** | **Lead Person** |
|---|---|---|---|---|
| 1 | An agreed set of policies/key documents, relevant to the AGS, has been identified and agreed. Some policies are not up to date or require review. | Identified policies to be reviewed and where necessary updated and re-issued | All relevant policies are up to date and meet current governance requirements.<br><br>In November 2022 Internal Audit will validate policies/key documents as part of the annual AGS assurance exercise, to confirm they have been reviewed and updated. | Strategic Manager – Organisational Intelligence |
| 2 | Further embedding of the risk management framework across all service areas | Implanting of consistent arrangements across the Council, specifically to ensure there is sufficient corporate visibility of risk across the | Internal Audit will validate that appropriate progress is being made by following up on agreed actions as part of | Strategic Manager – Organisational Intelligence |

| | Governance issue | Actions to address the issue | Measure of success | Lead Person |
|---|---|---|---|---|
| | | Council and how this is being mitigated/managed. | the 2022/23 Audit Programme. | |

**Summary**

The annual assessment and review process of the council's corporate governance arrangements has identified several issues that could further enhance the current arrangements. As a result, the Isle of Wight Council will take steps to address the above identified issues to secure further assurance in the areas of most concern identified above.

**Signed on behalf of Isle of Wight Council:**



**Wendy Perera**
**Chief Executive**

**Councillor Lora Peacey-Wilcox**
**Leader of the Council**

# IWC Governance Framework

## ADDENDUM 1A

### Strategic Planning Documents

- Corporate Plan 2019 to 2025
- Performance Management Framework
- IWC Risk Management Framework
- IWC Project Management Framework*
- Forward Plan
- Constitution (including Member Code of Conduct)
- Council Complaints Policy
- Town and Parish Council Protocol (16)

### Human Resources Documents

- IWC Terms and Conditions /Contracts of Employment*
- Pay Policy
- Capability Policy*
- Disciplinary Policy*
- Harassment & Bullying Policy
- Gifts and hospitality Guidance for staff and members
- Expenses Policy
- Behaviour Framework*
- Equality Impact Assessment Guidance
- Workforce Plan
- Whistleblowing Policy
- Employee Code of Conduct
- Recruitment Policy & Procedure
- Disclosure and Barring Service (DBS) Policy)
- Equality Policy Statement & Guidance*

### Financial Management Documents

- Medium Term Financial Plan
- Treasury Management Strategy
- Income and Charging Policy*
- Anti-money laundering policy*
- Anti-Fraud, Bribery and Corruption Policy*
- Corporate Tax Evasion Policy
- Contract Standing Orders*
- Financial Regulations
- Pension Fund Governance Policy
- Accountable Body Policy
- Grant Policy
- Loans Policy
- VAT Manual
- Procurement Strategy

### ICT and Legal Documents

- Data Protection Policy
- GDPR - Privacy Impact Assessment*
- Protective marking Policy*
- Corporate Retention Policy
- Information Security Policy
- Cloud Storage Policy
- Social Media Policy*
- Electronic Communications Policy*

(*) Intranet Only

**ANNUAL GOVERNANCE STATEMENT**
**Signed by the Leader of the Council, Chief Executive and S151 Officer and published with the Statement of Accounts**

Independent review and approval by Audit Committee who examine the draft AGS and supporting evidence

Authority & Service Policies, Directorate Plans and Risk Registers

Assistant Chief Executive with responsibility for drafting AGS after evaluating assurances and supporting evidence

Review of the effectiveness of the system of Internal Audit



| | | | | |
|---|---|---|---|---|
| **Performance Management**<br>• Service Board Reports<br>• Quarterly Performance Reports<br>• Benchmarking Clubs<br>• Personal Performance Management Reviews<br>• Job descriptions<br>• Corporate Induction<br>• Corporate Management Team Schedule of Meetings | **Risk Management**<br>• Strategic Risk Register<br>• Service Risk Registers<br>• Project Risk and Issues Logs<br>• Service Board Reports<br>• Online RM Training<br>• Classroom RM Training | **Information Governance**<br>• Training Programme<br>• Department Information Guardian Meetings<br>• Data Sharing Agreements<br>• Information Governance Group<br>• Information Security Group<br>• FOI Requests<br>• Complaints submission<br>• Subject Access Request | **Legal and Regulatory Assurance**<br>• Sections of Committee Reports Legal Advice<br>• Equality Impact Assessments<br>• Transparency reports<br>• Register of interests<br>• Whistleblowing Policy<br>• Call over processes | **Members Assurance**<br>• Council Meetings - Modern Council (moderngov.co.uk)<br>• Overview and Scrutiny Committees<br>• Cabinet<br>• Full Council<br>• Audit Committee<br>• Appeals Committee<br>• Member Induction<br>• Member Training Programme<br>• Health and Wellbeing board |
| **Assurance by Directors/Heads of Service**<br>• Corporate Management Team meetings<br>• One to One meeting with CX<br>• Monitoring Officer<br>• Section 151 Officer<br>• Chief Executive Officer | **Other Sources of Assurance (including third party)**<br>• Regulatory body Inspections<br>• Ombudsman Reports (2021-22)<br>• Staff Equality and Diversity Group<br>• Health and Safety Board<br>• Vine Staff Newsletter<br>• Manager's briefings<br>• Mental Health Working Group | **Financial Management**<br>• Statement of Accounts<br>• Capital Programme<br>• Service Board Reports<br>• Treasury Management<br>• Statutory Returns<br>• Outturn Reports<br>• Procurement Board | **Internal Audit**<br>• Annual Plan<br>• Periodic Reporting to Audit Committee | **External Audit**<br>• Annual Plan<br>• Annual Audit and Inspection Letter |

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Purpose: For Noting

ISLE of WIGHT COUNCIL

# Committee report

| | |
|---|---|
| Committee | **AUDIT COMMITTEE** |
| Date | **20 MARCH 2023** |
| Title | **INTERNAL AUDIT PROGRESS REPORT** |
| Report of | **CHIEF INTERNAL AUDITOR** |

## EXECUTIVE SUMMARY

1. Internal Audit provide periodic, summary in-year reporting to the Audit Committee regarding progress with the Annual Internal Audit Plan. The purpose of this reporting is to provide the committee with the necessary information to satisfy their remit, as set out in the committee's terms of reference in the constitution.

2. The committee is asked to note the report, seeking any clarifications necessary to satisfy their remit, either with Internal Audit regarding the findings of individual reports, or from line management regarding the progress of remedial action.

## RECOMMENDATION

3. That the report of internal audit be noted.

## BACKGROUND

4. The last Internal Audit Progress Report was presented to Audit Committee in November 2022. The report presented to the March 2023 committee meeting summarises the results of audits finalised between November 2022 and March 2023.

## CORPORATE PRIORITIES AND STRATEGIC CONTEXT

5. Internal Audit is a statutory function, responsible for providing independent assurance over all areas of the council.

### Responding to climate change and enhancing the biosphere

6. There are no direct impacts within this report that will affect this corporate priority.

### Economic Recovery and Reducing Poverty

7. There are no direct impacts within this report that will affect this corporate priority.

Impact on Young People and Future Generations

8. There are no direct impacts within this report that will affect this corporate priority.

Corporate Aims

9. Supports the Corporate Plan core value of being “fair and transparent”.

## CONSULTATION

10. Consultation takes place with the senior management team, both to inform the content of the annual Internal Audit programme of reviews and in year, to ensure that the work of Internal Audit is continuously aligned with the need of the council. Consultation also takes place with relevant managers for individual reviews, both to inform review scope and to confirm the accuracy of audit findings.

## FINANCIAL / BUDGET IMPLICATIONS

11. There are no direct financial implications, audits are carried out within the approved budget.

## LEGAL IMPLICATIONS

12. The council has an obligation under Regulation 5 of the Account and Audit Regulations 2015 to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

## EQUALITY AND DIVERSITY

13. The council as a public body is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. It is considered that there are no direct equality and diversity implications of this report for any of the protected groups.

## RISK MANAGEMENT

14. Risks associated with issues identified through the work of Internal Audit are clearly identified in all audit reports, regularly presented in summary form to Audit Committee.

## APPENDICES ATTACHED

15. Appendix 1 – Internal Audit Progress Report – March 2023

Contact Point: Elizabeth Goodwin, Chief Internal Auditor
☎ 821000 e-mail *Elizabeth.Goodwin@portsmouthcc.gov.uk*

| CHRIS WARD | COUNCILLOR ANDREW GARRATT |
|---|---|
| *Director of Finance and Section 151 Officer* | *Chairman of the Audit Committee* |

Appendix 1

ISLE of WIGHT COUNCIL

# Internal Audit Progress Report 20 February 2022

Elizabeth Goodwin, Chief Internal Auditor

# 1. Introduction

Internal Audit is a statutory function for all local authorities. The Isle of Wight Council's Internal Audit service has an in-house team and a shared Chief Internal Auditor with Portsmouth City Council (PCC). The in-house audit team is supported by audit and counter fraud staff from PCC under a collaborative working arrangement.

The requirement for an Internal Audit function in local government is detailed within the Accounts and Audit Regulations 2015 as to:

> *Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*

The standards for 'proper practices' are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].

# 2. Purpose of report

The purpose of this report is to update the Audit Committee on the progress of the 2022/23 Audit Plan as of 20 February 2023 and to highlight any significant risk exposure and control issues, including fraud and governance risks.

# 3. Assurance Levels

Internal Audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives for the area under review.

| Assurance Level | Description / Examples |
|---|---|
| **Assurance** | *No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority* |
| **Reasonable Assurance** | *Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority* |
| **Limited Assurance** | *Control weaknesses or risks were identified which pose a more significant risk to the Authority* |
| **No Assurance** | *Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit* |

*Audits rated No Assurance are reported in their entirety to Audit Committee along with Director's comments*

# 4. Exception Risk Ranking

The following table outline the exceptions raised in audit reports, reported in priority order and are broadly equivalent to those previously used.

| Priority Level | Description |
|---|---|
| Low Risk (Improvement) | *Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.* |
| Medium Risk | *These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.* |
| High Risk | *Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not 'show stopping' but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of* |
| Critical Risk | *Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the Council's objectives in relation to: The efficient and effective use of resources, The safeguarding of assets, The preparation of reliable financial and operational information, Compliance with laws and regulations* |

*Any critical exceptions found will be reported in their entirety to the Audit Committee along with Director's comments*

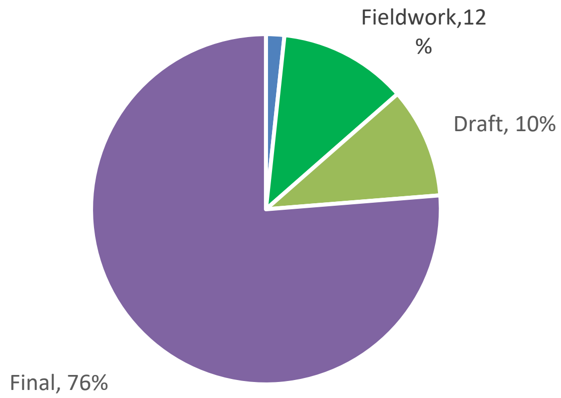
# 5. Follow-up Action Categorisation

The following table outlines the follow up categories used to describe the outcome of follow up testing completed.

| Follow Up Categories | Description |
|---|---|
| Open | *No action has been taken on agreed action.* |
| Pending | *Actions cannot be taken at the current time but steps have been taken to prepare.* |
| In Progress | *Progress has been made on the agreed action however they have not been completed.* |
| Implemented but not Effective | *Agreed action implemented but not effective in mitigating the risk.* |
| Closed: *Verified* | *Agreed action implemented and risk mitigated, verified by follow up testing.* |
| Closed: *Not Verified* | *Client has stated action has been completed but unable to verify via testing.* |
| Closed: *Management Accepts Risk* | *Management have accepted the risk highlighted from the exception.* |
| Closed: *No Longer Applicable* | *Risk exposure no longer applicable.* |

# 6. Audit Plan Progress

### Status Overall




| Status (including follow-ups) | Audits |
|---|---|
| **Pending** | **1** |
| **Fieldwork** | **7** |
| **Draft** | **6** |
| **Final** | **45** |
| **TOTAL** | **59** |

There were 53 reviews set out in the Audit Plan for 2022/23. There have been a number of changes to the originally proposed plan, primarily related to additional grants requiring certification by Internal Audit and consequent reductions in planned audit activity elsewhere. The current number of planned audits (full, follow-up and grant certification) is 59 more detail is provided in section eight of this report.

In addition to core assurance Internal Audit is providing further, ongoing support to the Council, by utilising IDEA software to highlight potential duplicate invoices.

All reviews currently included in the 2022/23 programme of work are included in summary information on this page. Detail regarding changes to the Audit Plan (not previously reported) is provided in the '**Audit Status**' section, later in this report.

This level of coverage represents an increase from the coverage provided prior to the partnership with Portsmouth City Council (PCC) and is appropriate for the size and range of responsibilities held by the Isle of Wight Council.

# 7. Audits in Period

Summaries for reports rated 'reasonable assurance' or better are provided below.

## Hospital Team/Discharge Process

**Exceptions Raised**

| Critical | High | Medium | Low |
|---|---|---|---|
| 0 | 0 | 5 | 2 |

**Overall Assurance Level**

Reasonable Assurance

**Assurance Level by Scope Area**

| | |
|---|---|
| Achievement of strategic objectives | Reasonable Assurance |
| Compliance with Policies, Laws & Regulations | NAT |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | Reasonable Assurance |
| Reliability and Integrity of Data | NAT |

The Team need to fully respond to the findings of a prior review by the Principal Social Worker and put in place an appropriate Team Plan. Issues were also identified regarding the discharge process, for example delays in making contact as soon as possible, post discharge while documentation and reporting/oversight arrangements also need to be enhanced.

## Software Development

**Exceptions Raised**

| Critical | High | Medium | Low |
|---|---|---|---|
| 0 | 0 | 4 | 0 |

**Overall Assurance Level**

Reasonable Assurance

**Assurance Level by Scope Area**

| | |
|---|---|
| Achievement of strategic objectives | Reasonable Assurance |
| Compliance with Policies, Laws & Regulations | NAT |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | Reasonable Assurance |
| Reliability and Integrity of Data | NAT |

All issues identified through this audit relate to the need to introduce a greater degree of formality to how developments are managed and overseen. For example, ensuring that evidence for alternative options investigated, prior to going down the in-house development route and decisions made during the development process is always retained and that multiple developers are always involved in individual developments, to minimise any overreliance on single team members.

## Planning and Enforcement

**Exceptions Raised**

| Critical | High | Medium | Low |
|---|---|---|---|
| 0 | 0 | 2 | 1 |

**Overall Assurance Level**

Reasonable Assurance

**Assurance Level by Scope Area**

| | |
|---|---|
| Achievement of strategic objectives | NAT |
| Compliance with Policies, Laws & Regulations | Reasonable Assurance |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | Reasonable Assurance |
| Reliability and Integrity of Data | Assurance |

The most significant issues identified relate to a backlog in the serving of enforcement notices, potentially linked to use of less efficient paper-based records and performance indicators which are insufficiently ambitious and/or do not sufficiently monitor performance against legislative requirements. The overarching Local Enforcement Policy also needs to be updated, to align with current legislation.

## Children's Disability and Transitions

**Exceptions Raised**

| Critical | High | Medium | Low |
|---|---|---|---|
| 0 | 0 | 3 | 0 |

**Overall Assurance Level**

Reasonable Assurance

**Assurance Level by Scope Area**

| | |
|---|---|
| Achievement of strategic objectives | NAT |
| Compliance with Policies, Laws & Regulations | Reasonable Assurance |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | Reasonable Assurance |
| Reliability and Integrity of Data | NAT |

Gaps were identified in arrangements to identify 'eligible persons', for example, proactive work with schools, information sharing protocols with third parties and appropriate policies/procedures, to support working with third party agencies.
This review also followed up on actions agreed in the prior audit of the Children's Disability Team. Both actions (Surplus Balances and Account Capping and Accounts receiving both Social Care and Continuing Healthcare (CHC) funding being verified as closed.

## Annual Governance Statement (AGS)

**Exceptions Raised**

| Critical | High | Medium | Low |
|---|---|---|---|
| n/a | n/a | n/a | n/a |

**Overall Assurance Level**

Reasonable Assurance

**Assurance Level by Scope Area**

| | |
|---|---|
| Achievement of strategic objectives | NAT |
| Compliance with Policies, Laws & Regulations | Assurance |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | NAT |
| Reliability and Integrity of Data | NAT |

Work to support the AGS focussed primarily on an agreed subset of 30 policies/strategic documents, agreed with the Strategic Manager, Organisational Intelligence and other stakeholders and relevant to AGS assertions. Audit review confirmed that the Policy Portfolio is substantively fit for purposes. While eight of the 30 policies are overdue review, corrective action is planned by relevant senior managers.

Alongside the above a short survey was also carried out of directors. This asked nine questions, covering cost saving plans, VfM and arrangements services have in place to manage cost of living pressures. The main gap identified through the survey is that the council currently undertakes limited work, for example benchmarking, to confirm its services provide VfM.

## Financial Governance (Adults)

**Exceptions Raised**

| Critical | High | Medium | Low |
|---|---|---|---|
| n/a | n/a | n/a | n/a |

**Overall Assurance Level**

N/A

**Assurance Level by Scope Area**

| | |
|---|---|
| Achievement of strategic objectives | NAT |
| Compliance with Policies, Laws & Regulations | NAT |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | NAT |
| Reliability and Integrity of Data | NAT |

This review was commissioned from Internal Audit, due to issues being identified relating to financial controls. A full review was carried out across financial processes, with results shared with senior management, to inform control enhancements.

## Duplicate Payments

| Exceptions Raised | | | | Overall Assurance Level |
|---|---|---|---|---|
| Critical | High | Medium | Low | N/A |
| n/a | n/a | n/a | n/a | |

**Assurance Level by Scope Area**

| | |
|---|---|
| Achievement of strategic objectives | NAT |
| Compliance with Policies, Laws & Regulations | NAT |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | NAT |
| Reliability and Integrity of Data | NAT |

The IDEA data analytics tool was used across the full range of payments made by the council, to identify potential duplicate payments. Potential duplicates were then passed to the service, for investigation and further action where necessary.

## Weights Management Service Grant

| Exceptions Raised | | | | Overall Assurance Level |
|---|---|---|---|---|
| Critical | High | Medium | Low | Assurance |
| 0 | 0 | 0 | 0 | |

**Assurance Level by Scope Area**

| | |
|---|---|
| Achievement of strategic objectives | NAT |
| Compliance with Policies, Laws & Regulations | Assurance |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | NAT |
| Reliability and Integrity of Data | NAT |

Testing was performed in accordance with the conditions of the funding to enable sign off by the Chief Executive Officer and Chief Internal Auditor.

## School Condition Funding

**Exceptions Raised**

| Critical | High | Medium | Low |
|---|---|---|---|
| 0 | 0 | 0 | 0 |

**Overall Assurance Level**

Assurance

**Assurance Level by Scope Area**

| | |
|---|---|
| Achievement of strategic objectives | NAT |
| Compliance with Policies, Laws & Regulations | Assurance |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | NAT |
| Reliability and Integrity of Data | NAT |

Testing was performed in accordance with the conditions of the funding to enable sign off by the Chief Executive Officer and Chief Internal Auditor.

## Disabled Facilities

**Exceptions Raised**

| Critical | High | Medium | Low |
|---|---|---|---|
| 0 | 0 | 0 | 0 |

**Overall Assurance Level**

Assurance

**Assurance Level by Scope Area**

| | |
|---|---|
| Achievement of strategic objectives | NAT |
| Compliance with Policies, Laws & Regulations | Assurance |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | NAT |
| Reliability and Integrity of Data | NAT |

Testing was performed in accordance with the conditions of the funding to enable sign off by the Chief Executive Officer and Chief Internal Auditor. The process review in this area will be reported in due course.

# Follow-up Audits in Period

Updates are provided below for follow-up activity, since the Audit Committee las met.

## Workforce Development

**Original Exceptions Raised**

| Critical | High | Medium | Low |
|---|---|---|---|
| 0 | 0 | 1 | 0 |

| Original Assurance Level | | Follow-up Level |
|---|---|---|
| Reasonable Assurance | → | Assurance |

All agreed actions have been substantively implemented.

| | | | |
|---|---|---|---|
| 1 | Medium | **Workforce Development** The initiative to update/enhance the Council's Workforce Development arrangements, supported by the Local Government Association (LGA), has been completed, with revised guidance cascaded to service areas supported by training. Workforce Development Plans in service areas are in the process of being finalised. | Closed: Verified |

## CCTV

**Original Exceptions Raised**

| Critical | High | Medium | Low |
|---|---|---|---|
| 0 | 2 | 0 | 1 |

| First Follow-up Level | | Second Follow-up Level |
|---|---|---|
| Limited Assurance | → | Reasonable Assurance |

All agreed actions are now implemented or pending final completion.

| | | | |
|---|---|---|---|
| 1 | High | **Overarching CCTV Arrangements/Public CCTV Network** A senior officer has now taken responsibility, for leading the Council's overarching CCTV arrangements. A revised CCTV Code is in final draft, pending finalisation post sign off by all stakeholders. | Closed: Verified |
| 2 | High | **CCTV used in Council Properties** An initial assessment of when CCTV is in place and provisional high-level documentation has been completed. Overseen by the senior officer identified above, enhanced processes are pending being implemented across the council's properties. | In Progress |
| 3 | Low | **Bodycams, Civil Enforcement Officers & Floating Bridge Staff (CEOs)** A revised Body Worn Video Policy has been finalised. | Closed: Verified |

## Homes in Multiple Occupancy (HMOs)

**Original Exceptions Raised**

| Critical | High | Medium | Low |
|---|---|---|---|
| 0 | 0 | 2 | 1 |

| Second Follow-up Level | | Third Follow-up Level |
|---|---|---|
| Reasonable Assurance | ➡ | Reasonable Assurance |

Issues originally identified have been substantively addressed. For context some risks have been accepted by the service, leading to the assurance level remaining at reasonable.

| | | | |
|---|---|---|---|
| 1 | Medium | **HMO Records**<br>Follow-up testing has confirmed that appropriate records are being maintained, including reporting and management oversight. | Closed: Verified |
| 2 | Medium | **HMO Inspections**<br>Performance and record keeping have improved, since the time of the original audit, with a particular focus on ensuring higher risk issues identified through inspections have been addressed. | Closed: Verified |
| 3 | Low | **HMO Records**<br>Issues regarding information from HMO records being present on the Council's website have been addressed. | Closed: Unverified |

## Risk Management

**Original Exceptions Raised**

| Critical | High | Medium | Low |
|---|---|---|---|
| 0 | 0 | 2 | 1 |

| Original Assurance Level | | Follow-up Level |
|---|---|---|
| Reasonable Assurance | ➡ | Assurance |

Agreed actions have been largely implemented.

| | | | |
|---|---|---|---|
| 1 | Low | **Strategic Risk Reporting**<br>Agreed enhancements to risk reporting presented to the Audit Committee have been implemented. | Closed: Verified |
| 2 | Medium | **Consistency of Risk Management**<br>Enhancements are being implemented to risk management in service areas, with Adult Service now fully in line with corporate expectations and appropriate visibility in place corporately, as to how risks are managed in Children's Services. | In Progress |
| 3 | Medium | **Planned Enhancements**<br>The Risk Management Framework and supporting documentation have been reviewed and updated. As per action two above these are in the process of being implemented. | Closed: Verified |

## Asset Management

| Original Exceptions Raised | | | | Second Follow-up Level | | Third Follow-up Level |
|---|---|---|---|---|---|---|
| Critical | High | Medium | Low | Reasonable Assurance | → | Reasonable Assurance |
| 0 | 0 | 2 | 0 | | | |

Agreed actions have been substantively addressed.

| | | | |
|---|---|---|---|
| 1 | Medium | **Oversight of Insurance Policies**<br>Remaining insurance obligations on tenants (one let property) are in the process of moving to the council. | Closed, Verified |
| 2 | Medium | **Current Leases and Licenses**<br>A small number (48) of properties with expired leases are either being renegotiated with the tenants or have revised arrangements being reviewed by Legal. Of these 33 are low value, less than £500 per year. | In Progress |

## School Landlord Responsibility

| Original Exceptions Raised | | | | First Follow-up Level | | Second Follow-up Level |
|---|---|---|---|---|---|---|
| Critical | High | Medium | Low | Reasonable Assurance | → | Reasonable Assurance |
| 0 | 2 | 0 | 0 | | | |

Measurable progress has been made, towards addressing issues identified, since the point of last follow-up.

| | | | |
|---|---|---|---|
| 1 | High | **Risk Management**<br>Training has been provided to management within Regeneration, with risk regarding School Landlord arrangement pending being added to the Service Risk Register. | In Progress |
| 2 | High | **Oversight System Design/Reporting**<br>A clear flowchart, setting out at what point noncompliance by schools with be escalated. There has been a marked improvement in the compliance status of schools since the point of last follow-up. | In Progress |

## Insurance

| Original Exceptions Raised | | | | First Follow-up Level | | Second Follow-up Level |
|---|---|---|---|---|---|---|
| Critical | High | Medium | Low | Reasonable Assurance | → | Reasonable Assurance |
| 0 | 0 | 2 | 0 | | | |

Good progress has been made addressing issues originally identified, since the prior follow-up of this area.

| | | | |
|---|---|---|---|
| 1 | High | **Insurance Portfolio**<br>A risk appetite statement has been adopted by management and appropriate records are being kept, for example regarding how recharges are arrived at. | Closed, verified |
| 2 | Medium | **Service objectives, approach, operational policies and procedures**<br>No specific documentation has been developed, beyond the risk appetite statement identified above; development of an 'insurance manual' is planned. | In Progress |
| 3 | High | **Property Portfolio**<br>Corporate visibility of the property portfolio has improved. However, 27% of insured properties do not have an up to date valuation, increasing the risk of properties being under insured. | In Progress |
| 4 | Medium | **KPIs and Management Information**<br>An appropriate portfolio of performance indicators is now in place. | Closed, verified |
| 5 | Medium | **Recharges**<br>Appropriate mechanisms are now in place, ensuring the involvement of corporate finance in the recharge process. | Closed, verified |

# 8. Audit Status

The table below summarises audit status including detail regarding audits now scheduled, either where the area of focus had not been confirmed at the time the 2022/23 Audit Plan was produced or where changes have been made subsequently, for example to respond to service requirements, in year.

| Audit | Full | First Follow-up | Second Follow-up | Grant | Status | Assurance Level | Comments |
|---|---|---|---|---|---|---|---|
| **Adult Services** | | | | | | | |
| **Hospital Team/Discharge Process** | ■ | | | | **Final** | **Reasonable** | Included in this report. |
| **Deferred Payments** | | | | | **Suspended** | | Rescheduled to quarter one, 2023/24 |
| **Deprivation of Liberty (DOLs)** | | | | | **Suspended** | | Provisionally rescheduled to quarter three 2023/24. |
| **Ukrainian Accommodation Support** | ■ | | | | **Fieldwork** | | New review. |
| **Weights Management Service Grant** | | | | ■ | **Final** | **Assurance** | Included in this report, new review. |
| **Financial Governance** | ■ | | | | **Final** | **N/A** | Included in this report, new consultancy review. |
| **Children's Services** | | | | | | | |
| **Direct Contact & Supervision** | | | | | **Suspended** | | To be reconsidered for inclusion in later audit planning cycles. |
| **Oakfield School** | ■ | | | | **Final** | **Reasonable** | Reported in September. |
| **Brighstone** | ■ | | | | **Final** | **Reasonable** | Reported in November. |
| **St Mary's School** | ■ | | | | **Draft** | | Pending presentation to CMT. |
| **Children with Disability (to include Transition children's to adults)** | ■ | ■ | | | **Final** | **Reasonable** | Included in this report. |
| **School Condition Funding** | | | | ■ | **Final** | **Assurance** | Included in this report, new review. |
| **Edge of Care (Barnardo's Contract)** | | | ■ | | **Final** | **Assurance** | Reported in September. |
| **Early Years** | | ■ | | | **Draft** | | |
| **Arreton School** | | | | | **Suspended** | | Limited follow-up suspended, due to |

| Audit | Full | First Follow-up | Second Follow-up | Grant | Status | Assurance Level | Comments |
|---|---|---|---|---|---|---|---|
| | | | | | | | change in school management. |
| **Broadlea School** | | ■ | | | **Final** | **Assurance** | Reported in November. |
| **Troubled Families (Children's)** | | | | ■ | **Ongoing fieldwork** | | Grant certifications carried out throughout year. |
| **School Financial Management Standard (SFVS)** | ■ | | | | **Final** | **Reasonable** | Reported in September. |
| **Corporate Services** | | | | | | | |
| **Accounts Payable (AP)** | | ■ | | | **Final** | **Assurance** | Reported in November. |
| **Accounts Receivable (AR)** | ■ | | | | **Draft** | | Pending presentation to CMT. |
| **Bank and Cash** | ■ | | | | **Fieldwork** | | |
| **Council Tax and NNDR** | ■ | | | | **Final** | **Reasonable** | Reported in November. |
| **Duplicate Payments** | ■ | | | | **Final** | **N/A** | Additional consultancy, included in this report. |
| **Housing Benefits** | ■ | | | | **Final** | **Reasonable** | Reported in November. |
| **Payroll** | | ■ | | | **Final** | **Reasonable** | Reported in November. |
| **IT Assets (including mobile phones)** | ■ | | | | **Final** | **Reasonable** | Reported in September. |
| **Blue Badges** | ■ | | | | **Final** | **Assurance** | Reported in September. |
| **Software Development** | ■ | | | | **Final** | **Reasonable** | Included in this report. |
| **Technology Forge (IT System)** | | ■ | | | **Final** | **Reasonable** | Reported in September. |
| **Fleet/Hire Cars** | | ■ | | | **Draft** | | |
| **Insurance** | | ■ | | | **Final** | **Reasonable** | Included in this report. |
| **Test and Trace £500** | | | | ■ | **Final** | **Assurance** | Reported in September. |
| **Omicron Business Grant** | | | | ■ | **Final** | **Assurance** | Reported in November. |
| **Modern Slavery** | | | ■ | | **Final** | **Assurance** | Reported in November. |

| Audit | Full | First Follow-up | Second Follow-up | Grant | Status | Assurance Level | Comments |
|---|---|---|---|---|---|---|---|
| **Freedom of Information (FOI)/Subject Access Requests (SARs)** | | | ■ | | Final | Reasonable | Reported in November. |
| **Agency (temporary staff, across Council)** | | | ■ | | Final | Reasonable | Reported in November. |
| **Pension Administration** | | | ■ | | Final | Reasonable | Reported in November. |
| **Workforce Development (including Wellbeing)** | | ■ | | | Final | Assurance | Included in this report. |
| **IT Follow-Up** | | ■ | | | Draft | | |
| **Finance** | | | | | | | |
| **Capital Accounting** | | | | | Suspended | | To be reconsidered for inclusion in later audit planning cycles. |
| **UNESCO and Interreg** | | | | ■ | Final | Assurance | Reported in September. |
| **Neighbourhoods** | | | | | | | |
| **Food Safety (Regulatory Compliance)** | ■ | | | | Fieldwork | | |
| **Bereavement** | ■ | | | | Final | Reasonable | Reported in November. |
| **Disabled Facility Process** | ■ | | | | Draft | | |
| **Disabled Facilities** | | | | ■ | Final | Assurance | Included in this report. |
| **Local Transport Capital Funding** | | | | ■ | Final | Assurance | Reported in September. |
| **CCTV** | | | ■ | | Final | Reasonable | Included in this report. |
| **Leisure Centres** | | | | | Suspended | | Suspended, due to changes in service arrangements. |
| **HMOs** | | | ■ | | Final | Reasonable | Included in this report. |
| **Public Health Funerals (Community)** | | | | | Suspended | | To be reconsidered for inclusion in later audit planning cycles. |
| **Bus Subsidy** | | | | ■ | Final | Assurance | Reported in November. |
| **Public Health** | | | | | | | |
| **Public Health Outcomes** | ■ | | | | Final | Reasonable | Reported in September. |
| **Contain Outbreak Management Fund (COMF)** | | | | ■ | Final | Assurance | Reported in September. |

| Audit | Full | First Follow-up | Second Follow-up | Grant | Status | Assurance Level | Comments |
|---|---|---|---|---|---|---|---|
| **Universal Drug Treatment** | | | | ■ | **Final** | Assurance | Reported in September. |
| **Regeneration** | | | | | | | |
| **Asset Disposals** | ■ | | | | **Fieldwork** | | |
| **Planning and Enforcement** | ■ | | | | **Final** | Reasonable | Included in this report. |
| **Section 106** | | ■ | | | **Final** | Reasonable | Reported in November. |
| **Asbestos** | | ■ | | | **Pending** | | |
| **Asset Management** | | | ■ | | **Final** | Reasonable | Included in this report. |
| **School Landlord Responsibility** | | ■ | | | **Final** | Reasonable | Included in this report. |
| **Creative Biosphere Grant** | | | | ■ | **Fieldwork** | | |
| **Strategy & Corporate** | | | | | | | |
| **Advocacy Contract (Adults)** | ■ | | | | **Final** | Assurance | Reported in September. |
| **Gouldings Project** | ■ | | | | **Final** | Reasonable | Reported in November. |
| **Annual Governance Statement (AGS)** | ■ | | | | **Final** | Reasonable | Included in this report. |
| **Key Controls** | ■ | | | | **Fieldwork** | | New review. |
| **Risk Management** | | ■ | | | **Final** | Assurance | Included in this report. |

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Purpose: For Decision

# Committee report

| | |
|---|---|
| Committee | **AUDIT COMMITTEE** |
| Date | **20 MARCH 2023** |
| Title | **INTERNAL AUDIT PLAN 2023/24** |
| Report of | **CHIEF INTERNAL AUDITOR** |

## EXECUTIVE SUMMARY

1. Internal Audit undertake a programme of audits during each year, ultimately to inform the Chief Internal Auditor's Annual Opinion on the council's internal control framework, which in turn informs the Council's Annual Governance Statement (AGS). This report contains the proposed coverage for 2023/24.

## RECOMMENDATION

2. That the 2023/24 internal audit plan be approved.

## BACKGROUND

3. In accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS) an annual plan of audit activities, aligned to both the organisations corporate objectives and risk exposure is identified. In order to inform the plan consultation with all relevant parties including the Chief Executive, directors and the Chair of the Audit Committee has been carried out. The Internal Audit Plan is presented to the Audit Committee annually, in advance of the commencement of the new financial year. The Plan is reviewed quarterly to take account of any changes in risks and priorities.

## CORPORATE PRIORITIES AND STRATEGIC CONTEXT

4. Internal Audit is a statutory function, responsible for providing independent assurance over all areas of the council. Activities performed by Internal Audit are aligned to the council's corporate priorities and risk exposure.

### Responding to climate change and enhancing the biosphere

5. There are no direct impacts within this report that will affect this corporate priority.

Economic Recovery and Reducing Poverty

6. There are no direct impacts within this report that will affect this corporate priority.

Impact on Young People and Future Generations

7. There are no direct impacts within this report that will affect this corporate priority.

Corporate Aims

8. Supports the Corporate Plan core value of being “fair and transparent”.

CONSULTATION

9. Consultation takes place with the senior management team, both to inform the content of the annual Internal Audit programme of reviews and in year, to ensure that the work of Internal Audit is continuously aligned with the need of the council. Consultation also takes place with relevant managers for individual reviews, both to inform review scope and to confirm the accuracy of audit findings.

FINANCIAL / BUDGET IMPLICATIONS

10. There are no direct financial implications, audits are carried out within the approved budget.

LEGAL IMPLICATIONS

11. The council has an obligation under Regulation 5 of the Account and Audit Regulations 2015 to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

EQUALITY AND DIVERSITY

12. The council as a public body is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. It is considered that there are no direct equality and diversity implications of this report for any of the protected groups.

RISK MANAGEMENT

13. In line with the PSIAS the 2023/24 Audit Plan is based on a risk assessment carried out by Internal Audit, including consultation with senior management. Risks associated with issues identified through the work of Internal Audit are clearly identified in all audit reports, regularly presented in summary form to Audit Committee.

APPENDICES ATTACHED

14. Appendix 1 – 2023/24 Internal Audit Plan

Contact Point: Elizabeth Goodwin, Chief Internal Auditor
☎ 821000 e-mail *Elizabeth.Goodwin@portsmouthcc.gov.uk*

| | |
|---|---|
| CHRIS WARD | COUNCILLOR ANDREW GARRATT |
| *Director of Finance and Section 151 Officer* | *Chairman of the Audit Committee* |

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Appendix 1

# 2023/24 Internal Audit Plan

Elizabeth Goodwin, Chief Internal Auditor

# Executive Summary

This document sets out Internal Audit's programme of work for 2023/24, to provide Audit Committee with the opportunity to comment on the proposed coverage.

For context all known Council 'activities' are risk assessed annually, with those presenting the highest risk being scheduled for audit the following year. In practice this results in higher risk areas, for example fundamental financial functions, being audited frequently, with the interval between audits for activities increasing, dependent on the assessed level of risk to the Council. Over a five-year period, high risk areas of the Council will be audited at least once.

The Plan is informed by:

- The risk exposure of the Council and is aligned to the strategic risk register.
- Legal requirements, specifically including grant sign offs by Internal Audit.
- Industry good practice and sector trends.
- Outcomes of prior Internal Audit reviews, for example all 2022/23 higher risk exceptions will be followed up during 2023/24.
- Consultation with the Council's senior management, including the Chief Executive, Directors, including the Director of Finance and Section 151 Officer, Chair of the Audit Committee and External Audit.

Primarily the Plan is risk based although a number of fundamental areas, for example key financial processes such as Payroll, Accounts Payable and Receivable, are reviewed frequently. Indicative links to the current Corporate Plan are also identified in the list of proposed audits. During the scoping stage of each review links between the area under review and their contribution to individual corporate priorities will be considered for coverage in fieldwork.

In addition to the planned programme of audits Internal Audit will also carry out fraud investigations and ad-hoc reviews, to ensure the Council has a fit for purpose Internal Audit service, as set out in the Public Sector Internal Audit Standards:

http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards

# Proposed Audits

| Audits | Type | Strategic Risks | Corporate Plan Themes |
|---|---|---|---|
| **Children's Services - Steve Crocker, Director of Children's Services** | | | |
| **Direct Contact & Supervision** | Full | R05 | T5 |
| **Cowes Primary School** | Full | R05 | T5 |
| **Holy Cross Catholic Primary School** | Full | R05 | T5 |
| **Wootton Community Primary School** | Full | R05 | T5 |
| **Island Learning Centre (Pupil Referral Unit)** | Full | R05 | T5 |
| **Out of Area Placements (Care)** | Full | RO6 | T5 |
| **Transition, Children to Adults** | Follow-up | R06 | T5, T3 |
| **St Mary's School** | Follow-up | R05 | T5 |
| **Oakfield School** | Follow-up | R05 | T5 |
| **Brighstone School** | Follow-up | R05 | T5 |
| **Early Years** | Follow-up | R05 | T5 |
| **Troubled Families (Children's)** | Grant | R05, RO6 | T5 |
| **Children's Services & Finance - Steve Crocker, Director of Children's Services & Chris Ward, Director of Finance & Section 151 Officer** | | | |
| **School Financial Management Standard (SFVS)** | Full | RO1, RO2, RO5 | T5, T2 |
| **Children's Key Financial Controls** | Full | RO1, RO2 | T5, T2 |
| **Adult Services - Laura Gaudion, Director of Adult Social Services** | | | |
| **Hospital Team/Discharge Process** | Follow-up | R09 | T3 |
| **Deferred Payments** | Follow-up | R06, R07 | T3 |
| **Better Care Fund (subset)** | Full | RO9 | T3, T1 |
| **Advocacy** | Full | R06, R07 | T3 |
| **Homelessness** | Full | R06, R07 | T3, T4 |
| **Adults Financial Management (Debt Recovery)** | Full | RO7 | T3, T2 |
| **Corporate Services - Claire Shand/Sharon Betts, Director of Corporate Services** | | | |
| **Accounts Payable (AP)** | Full | R01, R02 | T2 |
| **Accounts Receivable (AR)** | Follow-up | R01, R02 | T2 |
| **Bank and Cash** | Full | R01, R02 | T2 |
| **Council Tax and NNDR** | Follow-up | R01, R02 | T2 |
| **Housing Benefits** | Follow-up | R01, R02 | T2 |

| | | | |
|---|---|---|---|
| **Payroll** | Full | R01, R02 | T2 |
| **IT Disaster Recovery** | Full | R15 | T2, T4 |
| **Strategic Review of Fleet** | Full | R01, R02 | T2, T9 |
| **Fleet and Hire Cars** | Follow-up | R01, R02 | T2, T9 |
| **IT Assets (including mobile phones)** | Follow-up | R01, R02 | T2, T4 |
| **Blue Badges** | Follow-up | R13 | T2 |
| **Software Development** | Follow-up | R13, R15 | T2, T4 |
| **Duplicate Payments (IDEA)** | Analytics | R01, R02 | T2 |
| **Strategy/ Corporate - Wendy Perera, Asst Chief Exec & Chief Strategy Officer** | | | |
| **Contract (TBC from across the organisation)** | Full | R13 | T2, T7 |
| **Gouldings Project** | Follow-up | R13, R08 | T2, T3 |
| **Budget Savings** | Full | R01, R02 | T2 |
| **Partnership Governance** | Full | R11, R12, R13 | T2, T1 |
| **Risk Management (directorate arrangements)** | Full | R01, R02 | T2 |
| **Neighbourhoods - Colin Rowland, Director of Neighbourhoods** | | | |
| **Regulatory Compliance** | Follow-up | R13 | T4 |
| **Car Parking** | Full | R13 | T8, T9 |
| **Bereavement** | Follow-up | R13 | T8 |
| **Disabled Facilities** | Grant | R01, R02, R08 | T2, T3 |
| **Local Transport Capital Funding** | Grant | R01, R02 | T2, T9 |
| **Highways PFI/Ministry of Justice Land** | Full | R11 | T2, T1, T9 |
| **Disabled Facilities, Process Review** | Full | R08 | T3 |
| **Neighbourhoods & Finance - Colin Rowland, Director of Neighbourhoods & Chris Ward, Director of Finance & Section 151 Officer** | | | |
| **Bus Subsidy** | Grant | R01, R02 | T2, T9 |
| **Regeneration - Christopher Ashman, Director of Regeneration** | | | |
| **Asset Disposals** | Follow-up | R13 | T7 |
| **Planning and Enforcement** | Follow-up | R13 | T7, T6 |
| **Project Portfolio Review** | Full | R13 | T7 |
| **Venture Quay** | Full | R13 | T7, T1 |
| **Project (TBC)** | Full | R13 | T7 |
| **Public Health - Simon Bryant, Director of Public Health** | | | |
| **Public Health Outcomes** | Follow-up | R13 | T3 |
| **Finance - Chris Ward, Director of Finance & Section 151 Officer** | | | |

| | | | |
|---|---|---|---|
| **Capital Accounting** | Full | R01, R02 | T2 |
| **Treasury Management** | Full | R01, R02 | T2 |
| **Tax Evasion** | Full | R01, R02 | T2 |
| **Key Controls** | Full | R01, R02 | T2 |
| **UNESCO and Interreg** | Grant | R01, R02 | T2 |

# Risks

| Ref | Risk |
|---|---|
| **R01** | Lack of financial resource and the ability to deliver the council's in-year budget strategy. |
| **R02** | Lack of financial resource and the ability to deliver the council's medium term financial strategy. |
| **R03** | Insufficient staffing capacity and skills. |
| **R04** | A change in organisational culture fails to keep a pace with the speed of organisational change, negatively impacting on the delivery of the required transformation to deliver the corporate plan. |
| **R05** | Failure to improve educational attainment. |
| **R06** | Failure to identify and effectively manage situations where vulnerable children are subject to abuse. |
| **R07** | Failure to recruit acceptable quality of professional practice across Adult Social Care (ASC) and Housing Needs. |
| **R08** | Failure to identify and effectively manage situations where vulnerable adults are subject to abuse. |
| **R09** | Failure to secure the required outcomes from the integration of adult social care and health. |
| **R10** | Independent Social Care Sector Sustainability (care Homes and Home Care). |
| **R11** | Failure of the Highways PFI contract resulting in significant financial and operational disruption for the council and its residents. |
| **R12** | Failure of the Waste contract resulting in significant financial and operational disruption for the council and its residents. |
| **R13** | Achieving the vision for the Island. |
| **R14** | Additional demands placed upon the Isle of Wight Council and partners owing to a pandemic or similar large-scale outbreak. |
| **R15** | Dealing with threats to business continuity (including cyber incidents). |

# Corporate Plan themes

| Ref | Outcome |
|---|---|
| **T1** | Strategic partnerships and COVID-19 recovery |
| **T2** | Strategic finance, transformational change and corporate resources |
| **T3** | Adult social care and public health |
| **T4** | Community safety, housing and digital services |
| **T5** | Children's services, education and skills |
| **T6** | Planning and community engagement |
| **T7** | Regeneration, business development and tourism |
| **T8** | Environment, heritage and waste management |
| **T9** | Infrastructure and transport |

# Isle of Wight Council Internal Audit Charter & Code of Ethics February 2022

**Introduction**

1. On 1st April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK. The PSIAS replace the CIPFA Code of Practice for Internal Auditors in Local Government in the UK and encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).

2. The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced. The requirements of the Standards are covered in this Internal Audit Charter & Code of Ethics. The Standards have been revised from 1 April 2016 to incorporate the mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing.

3. Internal Audit is provided for the Isle of Wight under a joint in-house and Partnership arrangement with Portsmouth City Council.

**Authority**

4. The Accounts and Audit Regulations 2015 Section 5, define the requirement for an internal audit function within Local Government stating that:
'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'

**Responsibility**

5. The responsibility for maintaining an adequate and effective system of internal audit within Isle of Wight Council lies with the Director of Finance (S151 Officer).

6. The Chief Internal Auditor is responsible for effectively managing the internal audit activity in accordance with the *'Definition of Internal Auditing'*, the *'Code of Ethics'* and *'the Standards'*.

**Definitions**

7. In accordance with the PSIAS the definition of Internal auditing is.

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

8. Internal Audit is not an extension or a substitute for good management although it can advise management on risk and control issues. It is the duty of management to operate adequate systems of internal control and risk management.

9. Internal Audit will consider the adequacy and effectiveness of the internal control framework, regarding the council's operational arrangements, put in place to meet the statutory responsibilities effective for all council and, specific to the Isle of Wight Council, support its strategic objectives.

**Purpose and scope**

10. Internal Audit for the Isle of Wight will provide an Annual Internal Audit Opinion based on an objective assessment of the Authority's framework of governance, risk management and control, regarding its operational arrangements. It will also provide advice and consultancy services at the specific request of the Authority, with the aim of improving governance, risk management and control whilst contributing to the overall Annual Opinion.

11. The Annual Internal Audit Opinion must incorporate.

- The Opinion.
- A summary of the work that supports the Opinion; and
- A statement on conformance with PSIAS and the results of the quality assurance and improvement programme.

12. Internal Audit will not be restricted to the audit of financial systems and controls but will cover all operational and management controls. There are therefore no scope limitations, in that all of the Authority's activities fall within the remit of the Internal Audit; however, consideration will always be given to the competency, qualification and experience of those auditors tasked with carrying out the individual assignments. For example, Internal Audit will not make judgements or evaluations on care or academic assessments; equally it is not in the section's remit to give an opinion on the appropriateness of policy decisions.

13. Consultancy activities (i.e., advice, facilitation, counsel and training) the nature and scope of which will be agreed with the client and are intended to add value and improve the Council's governance, risk management and control processes without Internal Audit assuming responsibility.

14. Special reviews may be conducted at the request of the Audit Committee, Chief Executive and the s151 Officer. Internal Audit may also conduct investigations as requested by the Investigation Steering Panel - ISP (consisting of the Monitoring Officer, s151 Officer (or Deputy), and the Chief Internal Auditor, provided such reviews (special or investigation) do not compromise its objectivity or independence.

15. Any impact on the Audit Plan must be assessed and, if necessary, the Plan reprioritised by the Chief Internal Auditor. Any significant changes must be reported to the Chief Executive, and s151 Officer as well as the Audit Committee in their next reporting cycle.

16. Fraud prevention and detection is the responsibility of managers. However, if Internal Audit detects any suspected irregularities during the course of their activities they will report them to ISP. The Chief Internal Auditor may review the system for control weaknesses, but any investigation will be under the direction of ISP.

**Organisational Independence**

17. Internal Audit has no operational responsibilities for any financial systems, including system development and installation. It may however provide advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems.

18. The Chief Internal Auditor will be free from interference (although have due regard for the Authority's key objectives and risks and consult with the Audit Committee and Officers charged with governance) when setting the priorities of the annual audit plan, for example, in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.

19. Internal Audit will have free and unfettered access to Senior Management, defined as s151 Officer, Chief Executive, Monitoring Officer and Directors. In addition, Internal Audit will have free and unfettered access to the Leader of the Council and the Chair of the Audit Committee.

**Responsibilities of Individual officers**

Chief Internal Auditor

20. The Chief Internal Auditor must ensure that:

(1) They identify the overall remit of audit activity
(2) They consult the Council's management and Audit Committee, to inform the annual programme of Internal Audit work.
(3) The agreed programme of works is completed.
(4) There are adequate arrangements in place to carry out monitoring the quality assuring of the provision of Internal Audit.
(5) Internal Audit complies with the PSIAS and Code of Ethics at all times.
(6) They periodically review the Internal Audit Charter for adequacy and effectiveness.
(7) Constructive working relationships are fostered and encouraged between auditors, auditees, managers, and external auditors.
(8) A follow-up process to monitor and ensure that management actions have been effectively implemented and are undertaken promptly.
(9) Where management has accepted a level of risk that may be unacceptable to the Authority, that the matter is discussed with the s151 Officer, Chief Executive and Monitoring Officer as relevant, or escalated to the Audit Committee to resolve.

(10) They regularly report performance against plan to the Audit Committee and assist with their agenda.

Individual Auditors

21. All individual auditors must ensure that they:

(1) Maintain an impartial and unbiased attitude and avoid any conflict of interest.
(2) Possess the knowledge, skills and other competencies needed to perform their individual responsibilities and that they enhance those skills through continuing professional development.
(3) Exercise due professional care at all times.
(4) Assist management in establishing or improving risk management processes, without managing those risks.
(5) Give adequate notice of the start of a planned audit
(6) Develop and document a plan of each assignment detailing its objectives, scope and any limitations, timing and resource allocations.
(7) Consider the objectives, risks, effectiveness of the control framework, value for money obtained, of the activity under review, when planning and setting the objectives of each assignment.
(8) Develop and document a programme of works that achieves the audit objectives.
(9) Document sufficient information on their identification, analysis and evaluation of risks and controls within the area of audit activities, i.e. that the evidence is reliable, factual and adequate.
(10) Communicate their findings based on opinion ascertained from these evaluations, providing an overall conclusion/ assurance level, risk rating, recommendations (where relevant) and proposed action plans.
(11) Communicate all findings in an accurate, objective, clear, concise, constructive, complete and timely manner in accordance with PSIAS.
(12) Agree a plan of action with the Service to remedy control weaknesses
(13) Maintain professional independence, objectivity, integrity and confidentiality
(14) Inform the Chief Internal Auditor of any areas where they could have a conflict of interest which could impair or be perceived to impair their objectivity
(15) Hold in safe custody any documents or property or other material obtained for audit use or investigation.
(16) Act with due care to provide “reasonable” assurance on the adequacy of control
(17) Foster good working relationships with auditees, external auditors and managers

S151 Officer

22. The s151 Officer has the authority to ensure that the provision of Internal Audit is sufficient to meet the s151 requirements.

23. The s151 Officer must ensure that:

(1) Any suspected irregularities are properly and appropriately investigated, and action taken.
(2) S/he is satisfied that the Annual Audit Opinion assurance statement either on its own or as part of the Annual Governance Statement, reflects accurately the position of the control framework.

(3) Internal Audit and the Authority comply with their responsibilities as detailed within this Charter and Code of Ethics and Standards.
(4) Internal Audit is sufficiently resourced and is effective and in the event that it is not that this is raised with the s151 Officer and members of the Audit Committee.

Chief Executive

24. The Chief Executive carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

Members

25. The Audit Committee as the corporate body 'the board', have the responsibility to ensure that there is a current and effective Internal Audit function, ensuring that:

(1) The function complies with PSIAS.
(2) Internal Audit status is sufficient within the organisation, is independent organisationally and in its reporting and is free to set its priorities.
(3) There is an annual plan focused on the risk and control framework.
(4) Significant weaknesses identified by audit are addressed.
(5) Agreed actions are implemented.

Auditees

26. All persons under the controls of IWC; staff, members, contractors, temporary and agency staff must ensure that:

(1) They maintain a constructive approach to Internal Audit.
(2) Must present any cash, stores or any other authority asset under his or her control if requested to do so by an Auditor.
(3) Must ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
(4) Must ensure that auditors are provided with any information and explanations that they seek in the course of their work.
(5) They respond promptly and formally to audit reports within the agreed timescale
(6) They implement agreed actions and within an agreed timed action plan.

External Auditors

27. Internal Audit is expected to co-operate and regularly liaise with the external auditors to ensure an efficient and effective use of resources is achieved and unnecessary over-lapping of work is avoided.

28. The external auditors have a responsibility to assess whether the Internal Audit arrangements are adequate and will, where they are able, place reliance on Internal Audit work when forming their opinion on the Authority’s accounts.

**Reporting Structure**

29. On an annual basis the Chief Internal Auditor will present for review and approval any changes to the Internal Audit Charter and Code of Ethics and the annual audit plan of activities, including resource requirements and any perceived deficiencies to the Audit Committee, following consultation with the, s151 Officer, Chief Executive, Monitoring Officer, Directors and the Audit Committee.

30. An update on progress and performance to the audit plan will be presented at each Audit Committee. This will include any significant risk exposure and control issues, including fraud and governance risks.

31. Where critical risks, or the audit is rated as high risk the entire report will be presented to the Audit Committee. All other findings will be summarised in a covering report.

32. It is for management to determine whether or not to accept the audit exceptions and to recognise and accept the risks of not taking action. They must formally respond giving reasons for their decisions, which will be presented to the Audit Committee to challenge if they so wish. Where action is proposed on critical/high risks but has not been taken within a reasonable timeframe the matter will be escalated to the Audit Committee for resolution.

33. All reviews of the Annual Audit Plan will be presented for approval along with any significant consulting services not already included in the Audit Plan, prior to accepting the engagement.

34. Any issues of concern maybe escalated at the Corporate Management Team as well as at the Audit Committee.

**Access to records and personnel**

35. All Internal Auditors have right of access to all premises, personnel, documents and information they consider necessary for the purpose of their reviews and to obtain such information and explanations from any employee as necessary concerning any matter under review/investigation.

36. All Internal Auditors also have the power to require any council employee, agent or Member to produce cash, equipment, computers or other Council property under their control. Internal Audit can retain or seize these items in order to protect the Council's interest, or to preserve evidence, if a suspected irregularity has occurred before considering whether to refer the issue to the Police. Consultation with the Investigation Steering Panel will be carried out in advance of contacting the Police where possible.

**Due Professional Care**

37. The Chief Internal Auditor must hold a professional qualification and current membership, CMIIA, CCAB or equivalent and be suitably experienced.

38. All Internal Auditors will have sufficient knowledge through training and continued professional development to carry out their duties including evaluating the risk of fraud; however, it remains the responsibility of management to detect and manage fraud.

39. Any impairment either in fact or appearance on any individual auditor's independence or objectivity will be escalated to the s151 officer if the Chief Internal Auditor has been unable to resolve. Impairment may include, but is not limited to, personal conflict of interest, scope limitation, restrictions on access to records, personnel and properties and resource limitation, such as funding. A record will be made of any action taken.

**Quality Assurance & Improvement Programme**

40. The Chief Internal Auditor will develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activities. In order to achieve this, internal on-going supervision will be carried out after each audit.

41. The effectiveness of Internal Audit will be measured by.

(1) Risks to the Authority are identified and mitigated by agreed actions being implemented re critical and high-risk exceptions highlighted in Audit reviews.
(2) Compliance with the PSIAS and Code of Ethics
(3) External Auditors are able to rely on the work of Internal Audit when forming their opinion on the Authority’s accounts.
(4) Satisfactory responses received from clients by means of end of year questionnaires.

**Management of Internal Audit Activities**

42. The Chief Internal Auditor will ensure that the work of Internal Audit is of value to the Authority. This will be achieved by ensuring that the work carried out achieves its purpose as included in this charter.

43. The priorities of Internal Audit will be determined annually using a risk-based methodology and in consideration with the Authority's overall objectives. The risk-based approach will take into account the risk management framework and risk appetite levels along with each directorate's performance.

44. The Annual Audit Plan will be reviewed in response to changes in the Authority's risks, operations, systems and controls at least once during the year.

Purpose: For Approval

# Committee report

| | |
|---|---|
| Committee | **AUDIT COMMITTEE** |
| Date | **20 MARCH 2023** |
| Title | **ANTI-MONEY LAUNDERING POLICY** |
| Report of | **CHIEF INTERNAL AUDITOR** |

## EXECUTIVE SUMMARY

1. On the 26 March 2021, amendments of the Money Laundering and Terrorist financing and Transfer of Funds (information on the payer) Regulations 2017 came into force. Amendments have been made to the Anti Money Laundering Policy, both to respond to these changes and to align the council's policy with those in place at Portsmouth and Southampton councils.

2. The committee is asked to approve the Policy noting the key changes. The revised Policy will ensure that the Council has fit for purpose arrangements to prevent money laundering.

## RECOMMENDATION

3. That the revised policy be approved.

## BACKGROUND

4. The Council's current Anti Money Laundering Policy was last approved by the committee in March 2020, with an identified lifetime of three years.

## CORPORATE PRIORITIES AND STRATEGIC CONTEXT

5. Internal Audit is a statutory function, responsible for providing independent assurance over all areas of the council.

Responding to climate change and enhancing the biosphere

6. There are no direct impacts within this report that will affect this corporate priority.

Economic Recovery and Reducing Poverty

7. There are no direct impacts within this report that will affect this corporate priority.

Impact on Young People and Future Generations

8. There are no direct impacts within this report that will affect this corporate priority.

Corporate Aims

9. Supports the Corporate Plan core value of being “fair and transparent”.

## CONSULTATION

10. Consultation takes place with the senior management team, both to inform the content of the annual Internal Audit programme of reviews and in year, to ensure that the work of Internal Audit is continuously aligned with the need of the council. Consultation also takes place with relevant managers for individual reviews, both to inform review scope and to confirm the accuracy of audit findings.

## FINANCIAL / BUDGET IMPLICATIONS

11. There are no direct financial implications, audits are carried out within the approved budget.

## LEGAL IMPLICATIONS

12. The council has an obligation under Regulation 5 of the Account and Audit Regulations 2015 to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

## EQUALITY AND DIVERSITY

13. The council as a public body is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. It is considered that there are no direct equality and diversity implications of this report for any of the protected groups.

## RISK MANAGEMENT

14. Risks associated with issues identified through the work of Internal Audit are clearly identified in all audit reports, regularly presented in summary form to Audit Committee.

## APPENDICES ATTACHED

15. Appendix 1 – Anti-Money Laundering Policy

Contact Point: Elizabeth Goodwin, Chief Internal Auditor
☎ 821000 e-mail *Elizabeth.Goodwin@portsmouthcc.gov.uk*

| CHRIS WARD | COUNCILLOR ANDREW GARRATT |
|---|---|
| *Director of Finance and Section 151 Officer* | *Chairman of the Audit Committee* |

**Isle of Wight Council**

# ANTI MONEY LAUNDERING POLICY

**20 March 2023 / DRAFT**

Document Information

| | |
|---|---|
| **Title:** | **Anti-Money Laundering Policy** |
| **Status:** | **DRAFT** |
| **Current Version:** | **0.2** |
| **Author:** | Elizabeth Goodwin, Chief Internal Auditor<br>elizabeth.goodwin@portsmouthcc.gov.uk<br>☎ 02392 834682 |
| **Sponsor:** | Chris Ward, Director of Finance<br>chris.ward@portsmouthcc.gov.uk<br>☎ (01983) 821000 |
| **Revision Consultation:** | Corporate Finance<br>Legal Services |
| **Approved by:** | Audit Committee |
| **Approval Date:** | 20 March 2023 |
| **Review Frequency:** | Triennially |
| **Next Review:** | March 2026 |

| Version History | | |
|---|---|---|
| **Version** | **Date** | **Description** |
| 0.1 | October 2019 | Draft Version |
| 0.1 | March 2020 | FINAL |
| 0.2 | January 2023 | Draft Version |
| 0.2 | March 2023 | FINAL |
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| | | |
| | | |

# Contents

## 1. Introduction

1.1 The Isle of Wight Council (the Council) will do all it can to prevent the Council and its staff being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.

1.2 The Proceeds of Crime Act 2002 (POCA 2002), the Terrorism Act 2000, the Criminal Finance Act and money laundering legislation (see below) place obligations on the Council and its employees with respect to suspected money laundering.

1.3 On the 26th June 2017, The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 came into force. They implement the EU's 4th Directive on Money Laundering seeking to prevent new means of terrorist financing, including through e-money and prepaid cards.

1.4 The 2017 Regulations requires that financial sectors take a more risk-based approach towards anti- money laundering, particularly, in the conduct of due diligence. Determining the appropriate level of due diligence requires analysis of risk factors. In general, this new Regulation does not apply to Local Authorities, however, the council recognises this as good practice and therefore this policy provides that officers comply with the aims and objectives of the legislation.

1.5 On the 26th March 2021, amendments of the Money Laundering and Terrorist financing and Transfer of Funds (information on the payer) Regulations 2017 came into force. The Money Laundering and Terrorist Financing (Amendment) (High-Risk Countries) Regulations 2021 removes references to the European Commission's list of high-risk third countries and defines high risk third countries for the purposes of the MLRs as those countries identified in a new Schedule 3ZA. https://www.legislation.gov.uk/uksi/2021/392/made/data.xht?view=snippet&wrap=true

1.6 Key points:

- The Council is committed to the prevention, detection and reporting of money laundering.
- All employees must be vigilant for the signs of money laundering.
- Any employee who suspects money laundering activity must report this promptly to the Chief Internal Auditor (CIA) as the officer delegated to receive such reports.
- All payments to the Council accepted in cash that exceed £5,000 should be reported to the CIA.

- Where the Council is carrying out certain regulated activities by way of business then the customer due diligence procedure must be followed.
- In keeping with the Money Laundering, Terrorist, Financing and Transfer of Funds Regulations 2017, the Council has completed a risk analysis to identify, where appropriate, the sectors or areas of lower and greater risk of money laundering and terrorist financing.
- In keeping with the regulations which came into force on the 26th March 2021, advanced due diligence will be required for any High Risk Country listed on schedule 3ZA.
- The Money Laundering Regulations are detailed and complex – if you are in any doubt about the application of this Policy, please contact the Chief Internal Auditor.

## 2. Scope of this policy

2.1 This Policy applies to all employees of the Council and aims to maintain the high standards of conduct, which currently exist within the Council by preventing criminal activity through money laundering. The Policy sets out the procedures which must be followed (for example reporting of suspicions of money laundering activity) to enable the Council and staff to comply with their legal obligations.

2.2 This Policy sits alongside the Council's Anti-Fraud, Bribery & Corruption Policy.

2.3 Failure by a member of staff to comply with the procedures set out in this Policy may lead to disciplinary action being taken against them and may also lead to a conviction under POCA and Money Laundering Regulations. Any disciplinary action will be dealt with in accordance with the Council's Disciplinary Procedure.

## 3. What is Money Laundering?

3.1 Money laundering is the term used for a number of offences involving the proceeds of crime or terrorism funds. The following acts constitute the act of money laundering:-

- Concealing, disguising, converting, transferring criminal property or removing it from the UK (section .327 of the proceeds of Crime Act 2002 https://www.legislation.gov.uk/ukpga/2002/29/section/327
- Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section.328: https://www.legislation.gov.uk/ukpga/2002/29/section/328 or
- Acquiring, using or possessing criminal property (section .329). https://www.legislation.gov.uk/ukpga/2002/29/section/329

These are the primary money laundering offences and are thus prohibited acts under the legislation. There are two secondary offences:

- Failure to disclose any of the three primary offences.
- Tipping off.

Tipping Off is where someone informs a person or people who are, or who are suspected of being involved in money laundering, in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation.

3.2 Any member of staff could potentially be caught by the money laundering provisions as noted above, if they suspect money laundering and either become involved with it in some way and/or do nothing about it. This Policy therefore sets out how any concerns should be raised.

3.3. While the risk to the Council of contravening the legislation is low, it is important that all employees are familiar with their responsibilities. Serious criminal sanctions may be imposed for breaches of the legislation. The key requirement of employees is to promptly report any suspected money laundering activity to the CIA.

## 4. Nominated Officers

4.1 The officer nominated to receive such reports from staff within that Council is the Chief Internal Auditor, Elizabeth Goodwin, who can be contacted as follows:-

Elizabeth Goodwin,
Chief Internal Auditor,
Internal Audit

Telephone 02392 834682
E-Mail: elizabeth.goodwin@portsmouthcc.gov.uk

Alternatively and in the absence of the CIA you may also contact:

Geraint Newton
Audit Manager
Internal Audit

Telephone 07788 288604
E-Mail: geraint.newton@iow.gov.uk

## 5. Reporting Arrangements

5.1 Cash payments to the Council exceeding £10,000 must be reported immediately to the CIA using the attached form (Appendix A) regardless of whether you suspect money laundering activities or not. If you would prefer, you can discuss your suspicions with the CIA. Note: Cash is defined as including notes, coins or travellers' cheques in any currency. Please ensure that as much information as possible is included in the report to the CIA.

5.2 You must follow any subsequent directions of the CIA and must not yourself make any further enquiries into the matter. You must not disclose or otherwise indicate your suspicions to the person suspected of the money laundering. In addition, you must not discuss the matter with others e.g. colleagues or note on the file that a report has been made to the CIA in case this results in the suspect becoming aware of the situation.

5.3 The CIA must promptly evaluate any Disclosure Report, to determine whether it should be reported to the National Crime Agency via the UK Financial intelligence Unit by means of a Suspicious Activity Report (SAR).

5.4 The CIA or any member of staff will commit a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering, and they do not disclose this as soon as practicable to the National Crime Agency.

## 6. Customer Due Diligence

6.1 Where the Council is carrying out certain 'relevant business activities' then extra care is needs to be taken to check the identity of the customer or client - this is known as carrying out 'Customer Due Diligence.

6.2 The Regulations regarding customer due diligence are detailed and complex, but there are some simple questions that will help you decide if it is necessary.

- Is the service a regulated activity? Note: Regulated activity is defined as the provision 'by way of business' of advice about tax affairs, accounting services, treasury management, investment or other financial services, audit services, legal services, estate agency, services involving the formation, operation or arrangement of a company or trust or dealing in goods wherever a transaction involves a cash payment of £10,000 or more.
- Is the Council charging for the service? I.e., is it by way of business?
- Is the service being provided to a customer <u>other than</u> a UK public authority?

- Is the Country of origin listed on the 3ZA and recognised as a High Risk requiring Enhanced due diligence.

If the answer to any of these questions is **no,** then you do not need to carry out customer due diligence.

If the answer is **yes,** then you need to carry out customer due diligence before any business is undertaken for that client. If you are unsure whether you need to carry out customer due diligence, then you should contact the CIA.

6.3 Where you need to carry out customer due diligence then you must seek evidence of identity, for example.

- Checking with the customer's website to confirm their business address.
- Conducting an on-line search via Companies House to confirm the nature and business of the customer and confirm identities of any directors.
- Seeking evidence from the key contacts or Individuals of their personal identity, for example their passport, and position within the organisation.

6.4 The requirement for customer due diligence applies immediately for new Customers and should be applied on a risk sensitive basis for existing Customers.

6.5 Ongoing customer due diligence must also be carried out during the life of a business relationship but should be proportionate to the risk of money laundering and terrorist funding, based on the other's knowledge of the Customer and a regular scrutiny of the transactions involved.

6.6 If, at any time, you suspect that a client or customer for whom you are currently, or are planning to carry out a regulated activity is carrying out money laundering or terrorist financing, or has lied about their identity then you must report this to the CIA.

## 7. Enhanced Due Diligence

7.1 In certain circumstances enhanced customer due diligence must be carried out for example where:

- The customer has not been physically present for identification.
- The customer is a politically exposed person. Note: A politically exposed person is an individual who at any time in the preceding year has held a prominent public function outside the UK and EU or international institution/ body, their immediate family members or close associates.

- There is a beneficial owner who is not the customer- a beneficial owner is any individual who: holds more than 25% of the shares, voting rights or interest in a company, partnership or trust.
- Where there is a high risk of money laundering or terrorist financing.
- In any case where the client has provided false of stolen identification documentation or information on establishing a relationship.
- In cases where the transactions are complex and unusually large, or there is an unusual pattern of transactions.
- The Country of origin from which the money is being received is listed on schedule 3ZA https://www.legislation.gov.uk/uksi/2021/392/made/data.xht?view=snippet&wrap=true

7.2 Enhanced customer due diligence could include additional documentation, data or information that will confirm the customer's identity and/or source of the funds to be used in the business relationship/transaction. If you believe that enhanced customer due diligence is required you must consult the CIA prior to carrying it out, to ensure that the checks are completed.

## 8. Record Keeping

8.1 Where 'relevant business' is carried out then the customer due diligence records and details of the relevant transaction(s) for that client must be retained for at least five years after the business relationship.

8.2 An electronic copy of every customer due diligence record must be sent to the CIA to meet requirements of the Regulations and in case of inspection by the relevant supervising body.

## 10. Guidance and Training

10.1 In support of the policy and procedure, the Council will:

- Endeavour to make all staff aware of the requirement and obligation placed on the Council and on themselves as individuals by the anti-money laundering legislation; and
- Provide targeted training where it has been identified staff are most likely to encounter money laundering.

## 11.

**CONFIDENTIAL**

**Appendix A**

## REPORT TO CHIEF INTERNAL AUDITOR:

## RE MONEY- LAUNDERING ACTIVITY

**To: Elizabeth Goodwin, Chief Internal Auditor, Internal Audit, Isle of Wight Council, County Hall, Newport, PO30 1UD**

**From:** ______________________________
(Insert employee name)

**Service:** ______________________________

**Dept & Ext/Tel No:** ______________________________
(Insert department, job title & ext.)

**DETAILS OF SUSPECTED OFFENCE:**

| |
|---|
| **Name(s) and address(es) of person(s) involved**<br>**(If a company/public body please include details of their nature of business if known).** |
| Name(s): |
| Address(es): |

| |
|---|
| **Nature, value and timing of activity involved**<br>**(Please include full details e.g. date(s); what the payment was for and if this is a single transaction or has been identified as one of a series of transactions. Include all available evidence of the activity).** |
| Date(s):<br><br>Description of activity:<br><br>**Amount(s):**<br><br>**Where activity took place:**<br><br>**Evidence:** |

| |
|---|
| (Please list and attach if possible)<br><br>**Reasons for suspicion of activity**: |

| **Has any investigation been undertaken to the best of your knowledge?**<br>**(**If yes please include full details) |
|---|
| |

| **Have you discussed your suspicions with anyone else?**<br>**(**Please read the notes at the foot of the page**)** |
|---|
| If yes please explain who with and why such discussion was necessary: |

| **Please detail below any other information you feel is relevant:** |
|---|
| |

**Signed: ___________________________**
**Dated: _____________**

**IMPORTANT: Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity either directly or indirectly with anyone else who could alert the suspect(s) that they are under investigation. If you do, this may be considered as a 'tipping off' offence under the legislation, which carries a maximum penalty of 5 years' imprisonment.**

## THIS SECTION FOR CIA USE ONLY

**Date Report Received**: __________________ __

**Date Acknowledged:** ___________________

**Reference Number Allocated**: ___________________

**(Reference**)

**CONSIDERATION OF DISCLOSURE TO THE NATIONAL CRIME AGENCY**

| **Action Plan:** |
|---|
| |

**OUTCOME OF CONSIDERATION OF DISCLOSURE:**

| **Are there reasonable grounds for suspecting money laundering activity?** |
|---|
| Yes / No – State reasons |

| **If there are reasonable grounds for suspicion, will a Suspicious Activity Report (SAR) be made to the NCA?**<br><br>If yes please state date report submitted: ___________________ |
|---|

| **If no, please state below the reasons for non-disclosure to** |
|---|

**the NCA:**
(Please include details of any discussions with other Officers e.g. Legal Services, together with name(s) and advice given).

**Is consent required from the NCA to any on-going or imminent transactions which would otherwise be prohibited acts?**

If Yes please confirm full details

**Details of liaison with the NCA**

**Consent Not Required**: **Date SAR Report**

**Acknowledged**: ____

**Consent Requested:**

**Notice Period: From: ________________To: ___________**
**(The NCA has 7 working days starting the first working day after the consent request is made to refuse continuation of the activity. If no refusal has been received consent is deemed to have been given and the activity may continue).**

**Moratorium Period: From: ____________To: __________**
(If consent is refused during the notice period, a further 31 days starting with the day on which the consent is refused must elapse before the activity may continue. In the absence of any action to restrain the activity by law enforcement during the moratorium period the activity may continue).

Date and time consent given by the NCA: _________________
(Telephone consent will often be given, which can be relied upon, and followed up in writing several days later).

**SOCA Consent Reference: __________________**

**Name and Contact Number of NCA Officer: _____________________**

| |
|---|
| **Date consent given by you to the employee: ________________** |
| **Any Other relevant information:** |
| |

**Signed: ____________________________**

**Dated: ______________________**

**Print Name: ____________________________**

**IMPORTANT: This report and all other records relating to an investigation of suspected Money Laundering activity whether or not reported to the NCA must be kept in a confidential file for that purpose and retained for at least 5 years from the conclusion of the investigation.**

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Purpose: For Decision

# Committee report

| | |
|---|---|
| Committee | **AUDIT COMMITTEE** |
| Date | **20 MARCH 2023** |
| Title | **TREASURY MANAGEMENT STRATEGY 2023/24** |
| Report of | **DIRECTOR OF FINANCE AND SECTION 151 OFFICER** |

## EXECUTIVE SUMMARY

1. This report presents the Treasury Management Strategy (TMS) 2023/24.

2. The committee is asked to adopt the Treasury Management Strategy for 2023/24.

## RECOMMENDATION

3. That the committee adopt the Treasury Management Strategy for 2023/24.

## BACKGROUND

4. The council has delegated the review of the annual Treasury Management Strategy to the Audit Committee. As such, all references to the council adopting the various requirements of a Treasury Management Strategy (TMS) in the following paragraphs, are delegated to the audit committee.

5. The Local Government Act 2003 (the act) and subsequent regulations require the council to set out its annual strategy with regard to both borrowing and the repayment of external debt. This is set out in the borrowing strategy (section 4 of the attached TMS).

6. The council must also approve an annual investment strategy in compliance with government guidance on local government investments. Section 5 of the attached TMS sets out the council's policy for managing its treasury investments and for giving priority to the security and liquidity of those investments.

7. The act and subsequent regulations require the council to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code), and Treasury Management Practices (TMPs).

8. The council's constitution specifies that the Chief Financial Officer, namely the Director of Finance and section 151 officer, has responsibility for treasury management and all banking arrangements. This includes the development and review of the council's treasury management practices (TMPs), which detail the way in which the council delivers the Treasury Management Strategy.

9. The TMPs specifically cover the following areas:
   - TMP 1 – Risk management.
   - TMP 2 – Performance measurement.
   - TMP 3 – Decision making and analysis.
   - TMP 4 – Approved instruments, methods and techniques.
   - TMP 5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements.
   - TMP 6 – Reporting requirements and management information arrangements.
   - TMP 7 – Budgeting, accounting and audit arrangements.
   - TMP 8 – Cash and cash flow management.
   - TMP 9 – Money laundering.
   - TMP 10 –Training and qualifications.
   - TMP 11 – Use of external service providers.
   - TMP 12 – Corporate governance.
   - TMP 13 – Non-treasury investments

10. It is proposed to undertake a full review of the TMP's during 2023/24. No changes have been made prior to this report being published.

11. In accordance with TMP 6, the Audit Committee will receive an annual report on the compliance with the 2022/23 TMS at its meeting in July 2023, and regular progress reports regarding the 2023/24 TMS at the September 2023, December 2023 and March 2024 meetings.

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

12. The strategy specifically supports the council's capital programme and the Corporate Plan 2021 – 2025 ensuring the key priorities of the council are deliverable within the reduced resources available to the council.

Responding to climate change and enhancing the biosphere

13. Through its treasury management activity, the council invests in a combination of money market funds, call accounts maintained by banks and in other local authorities. The council needs to review these investments in relation to their impact on the council's Climate and Environment Strategy.

14. As a result, each of the financial institutions that the council invests in has provided their Environmental, Social and Governance statements, together with any specific statements relating to climate change.

15. The council will include all scope 1 and 3 emissions created directly by itself or indirectly (for example emissions made by our contractors, investments or travel) in our annual carbon footprint.

16. Investments count towards downstream scope 3 emissions which contribute towards the Council's overall carbon footprint.

Economic Recovery and Reducing Poverty

17. Although there is no direct impact within the report at Appendix 1 relating to this corporate priority, the Treasury Management Strategy and the prudential indicators that are set, enable the council to contribute towards reducing the numbers of residents, and especially children, who are living in poverty.

Impact on Young People and Future Generations

18. Although there is no direct impact within the report at Appendix 1 relating to this corporate priority, the Treasury Management Strategy and the prudential indicators that are set, enable the council to contribute towards the future sustainability of the council.

## CONSULTATION

19. The draft strategy has been prepared in conjunction with advice received from the council's treasury management adviser, Arlingclose Limited, which has provided details of the external economic context and has reviewed the draft strategy for compliance with regulations etc.

20. No external consultation has been undertaken.

## FINANCIAL / BUDGET IMPLICATIONS

21. The financial and budgetary implications arising from the recommendations to adopt the Treasury Management Strategy and policy are reflected within the approved Revenue Budget 2023/24.

22. The establishment of effective arrangements for the regular monitoring and review of the council's treasury management arrangements is a key part of the effective budget management of the council. During 2023/24, the average investment portfolio is forecast to be £5 million and the average debt portfolio is forecast to be £205 million.

23. If actual levels of investments and borrowing, as well as actual interest rates, differ from that forecast, performance against budget will be correspondingly different.

## LEGAL IMPLICATIONS

24. The Local Government Act 2003 and subsequent regulations require the council to set out its annual strategy with regard to both borrowing and the repayment of external debt. The act and subsequent regulations require the council to have regard to CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes (the TM Code) and The Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

## EQUALITY AND DIVERSITY

25. The council as a public body is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

26. The Treasury Management Strategy is not considered to have any impacts on the protected characteristics.

## RISK MANAGEMENT

27. Treasury management activities have a high level of risk in that they relate to transactions that can amount to several million pounds which are undertaken with external bodies. When the council has surplus monies to invest, there are risks if those organisations to whom it lends default on repayment. The costs to the council of its treasury management activities are dependent on fluctuating interest rates.

28. The overall strategy of borrowing short-term and avoiding long-term debt carries the risk that, if interest rates suddenly rise, when longer term debt is eventually required, it will cost more.

29. The council manages these risks by adopting a treasury management strategy which includes a statement of treasury management practice specifically relating to risk, covering the following risk areas:

- Credit and counterparty risk – who the council is permitted to lend to and borrow from and what instruments it can utilise.

- Liquidity risk – ensuring that sufficient, but not excessive, funds are available when needed.

- Interest rate risk – minimising the council’s exposure to significant fluctuations in interest rates, both investment income and borrowing costs, by continually reviewing the instruments it uses.

- Exchange rate risk – minimising the council’s exposure to foreign exchange risk by restricting the exposure to foreign currency investments and overseas counterparties.

- Refinancing risk – ensuring that the maturity profile of long-term debt is as evenly spread as possible, and planning for the replacement of maturing debt at the most favourable interest rates.

- Legal and regulatory risk – ensuring compliance with regulations and statutory requirements.

- Risk of fraud, error and corruption – ensuring that appropriate controls are in place around staffing and processes and ensuring appropriate business continuity arrangements exist.

- Market risk – ensuring that the council's treasury management activities are not compromised by adverse economic circumstances.

30. The committee's overview of the council's treasury management arrangements plays an important part in the council's overall governance regime. It has an important role to play in the monitoring of treasury management activities, including overview of the risks faced by this function both internally, which are directly controllable through segregation of duties and reporting arrangements, and externally, controllable through the monitoring of counterparties and lending limits, and also regular monitoring of general economic factors.

APPENDICES ATTACHED

31. Appendix 1 - Treasury Management Strategy 2023/24

32. Appendix 2 – Differences between 2022/23 and 2023/24 strategies

BACKGROUND PAPERS

33. Treasury Management Practices https://www.iow.gov.uk/Meetings/committees/Audit%20Committee/18-2-19/PaperF-AppendixB-TreasuryManagementPractices.pdf.

Contact Point: Jo Cooke, Pension Fund & Treasury Management Accountant, ☎ 821000
e-mail *jo.cooke1@iow.gov.uk*

CHRIS WARD
*Director of Finance*
*and Section 151 Officer*

COUNCILLOR CHRIS JARMAN
*Cabinet Member for Strategic Finance, Corporate Resources and Transformational Change*

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## Isle of Wight Council

# TREASURY MANAGEMENT STRATEGY

## 2023/24

# Document Information

| | |
|---|---|
| Title:<br>Status: | Treasury Management Strategy 2023/24 |
| Current Version: | 2.2 |
| Author: | Jo Cooke, Pension Fund & Treasury Management Accountant<br>Financial Management<br>jo.cooke1@iow.gov.uk<br>☎ (01983) 821000 ext. 6397 |
| Sponsor: | Chris Ward, Director of Finance and Section 151 Officer<br>Financial Management<br>chris.ward@portsmouthcc.gov.uk<br>☎ (01983) 821000 |
| Consultation: | *Finance Director & S151 Officer, Assistant Director of Finance, Strategic Manager – Corporate & Technical Finance, Senior Finance Business Partner* |
| Approved by:<br>Approval Date: | *Audit Committee* |
| Review Frequency:<br>Next Review: | Annual<br>March 2024 |

| Version History | | |
|---|---|---|
| Version | Date | Description |
| 1.0 | 26 January 2023 | First draft – template review |
| 1.1 | 10 February 2023 | Out for review with DL/BD |
| 1.2 | 21 February 2023 | For 2nd review by DL |
| 2.0 | 22 February 2023 | Out for review with KH |
| 2.1 | 24 February 2023 | Out for review with CW |
| 2.2 | 06 March 2023 | Final Version |

# Contents

# 1 Introduction

1.1 The Isle of Wight Council defines its treasury management activities as “the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks”.

1.2 Treasury risk management at the council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy’s Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the council to approve a treasury management strategy before the start of each financial year. This report fulfils the council’s legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

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

1.4 The council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the financial impact of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the council’s treasury management strategy.

# 2 External Context

**Economic background (provided by Arlingclose Limited) (produced 11 January 2023):**

2.1 The conflict in Ukraine continued to keep global inflation elevated and the UK and global economic outlook remains weak. Political uncertainty in the UK improved in the later part of the period following a change in government to what financial markets perceived as being more fiscally prudent.

2.2 The economic backdrop during the April to December period continued to be characterised by high energy and commodity prices, high inflation and the associated impact on consumers’ cost of living, as well as little likelihood that the Russia-Ukraine hostilities will end any time soon. China started to lift some of its zero-Covid policy restrictions at the end of the period causing a sharp increase in infections, but also leading to questions over potential under reporting of the number of cases by the Chinese government due to how it is counting the figures.

2.3 Central Bank rhetoric and action continued to remain robust. The Bank of England, Federal Reserve and the European Central Bank all increased interest rates over the period and committed to fighting inflation, even in the face of potential recessions in those regions.

2.4 UK inflation remained high, but there were tentative signs it may have peaked. Annual headline CPI registered 10.7% in November, down modestly from 11.1% in October. RPI was 14% in November, down from 14.2% in October, but slightly above expectations for a larger fall to 13.9%.

2.5 The UK government under Rishi Sunak and Jeremy Hunt reversed some of the support to household energy bills announced under the previous Liz Truss leadership. The previous support package which would have seen average consumption cost £2,500 annually until 2024 was replaced by a less generous scheme which was only maintained at this level until March 2023, to be replaced by a higher cap of £3,000 per year for the typical household from April onwards.

2.6 The labour market remained tight but with some evidence of softening demand for new labour. The unemployment rate 3m/year for April-June was 3.8%, which declined to 3.6% in July-September and picked up again to 3.7% in October-December. The inactivity rate was 21.5% in the latest quarter, down by 0.1% compared to the previous period. Pay growth in October-December was 6.1% for both total pay (including bonuses) and for regular pay. Once adjusted for inflation, however, both measures fell by 2.7%.

2.7 Household disposable income remained under pressure, pushing consumer confidence down to a record low of –49 in September, but following months showed registered modest improvements to December's reading of –42. Quarterly GDP for the April-June quarter was revised upwards to 0.2% (from -0.1%), following revisions to household and government spending, but fell by -0.3% in the July-September quarter, a larger decline than the -0.2% predicted.

2.8 The Bank of England increased the official Bank Rate to 3.5% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with outsized hikes of 50bps in August and September, 75bps in November and then another 50bps in December. November's rise was voted by a majority of 7-2, with one MPC member preferring a 0.5% rise and another a 0.25% rise. The December vote was 6-3, with two members preferring to keep Bank Rate on hold at 3% while one member wanted a larger increase of 0.75%. Once again, the Committee noted that domestic inflationary pressures are expected to remain strong and continuing rhetoric around combating inflation means further rate rises are predicted.

2.9 After hitting 9.1% in June, annual US inflation slowed for a further five consecutive months, with relatively strong falls in October to 7.7% and then in November to 7.1%. The Federal Reserve continued raising interest rates over the period with four consecutive increases of 0.75% in June, July, September, and November respectively, followed by 50bp in December taking policy rates to a range of 4.25% - 4.50%.

2.10 Eurozone CPI inflation hit a record-high of 10.6% y/y in October following rises in each month over the period. In November inflation fell to 10.1%, the first decline since June 2021. Energy prices remained the largest upward contribution to the price increase. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in December following two consecutive months of 0.75% rises, taking the deposit facility rate to 2% and the main refinancing rate to 2.5%.

2.11 **Financial markets**: Uncertainty remained a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates. In September and October, volatility in financial markets was significantly exacerbated by the fiscal plans of the then UK government (under Liz Truss), leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling. However, the subsequent change of government leadership to Rishi Sunak and Jeremy

Hunt lead to gilts yields falling in November and December, albeit at higher levels compared to earlier in the period.

2.12 Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the calendar year at 3.62%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.67%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 4.03%. The Sterling Overnight Rate (SONIA) averaged 1.75% over the period.

2.13 **Credit review:** During the last few months of the period, in October Fitch revised the outlook on the UK sovereign to negative from stable following the largely unfunded fiscal package announced at the time, and a few weeks prior revised the outlook on HSBC to stable from negative.

2.14 Over the same timeframe Moody's also revised the UK sovereign to negative from stable, following swiftly after with a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank (and related entities) and Santander.

2.15 Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks earlier in the year (May), Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of December.

2.16 Although local authorities remain under financial pressure, Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.

2.17 Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

**Events that occurred between November 2022 and February 2023:**

2.18 In the period since the above was written, there have been several notable events which will be summarised below.

2.19 The MPC, at its December 2022 meeting, voted by a majority of 6-3, to increase the Bank Rate by 0.5% to 3.5%. Then, at its February 2023 meeting there was another majority vote (7-2) to increase the rate again, this time by a further 0.5% to 4.0%. The MPC indicated that they considered that they were close to the end of their current monetary policy tightening cycle.

2.20 The year-on-year CPI rate decreased from 10.7% in November to 10.5% in December. Following the sharper than expected decline in the CPI rate in November, the December data indicated that the road back to target is likely to be bumpy. The concern for the MPC will be the strong monthly growth in services inflation, which is seen as a barometer of domestically generated inflation (read wage growth). Core CPI also remained steady at 6.3% allowing the more hawkish members of the Committee to argue for more significant monetary policy action at the meeting in early February.

2.21 Despite the UK's inflation rate falling for a second consecutive month, households remain under significant pressure and the BoE needs to also account for earlier rate increases not having reached their full impact on the UK economy yet. Food and non-alcoholic beverages made one of the largest upward contributions to the rate, jumping by a collective 16.8% which is the fastest annual increase since 1977. The UK unemployment rate remained at 3.7% in the three months to November, in line with market consensus, whilst the annual growth in average pay was 6.4%, which is the strongest growth seen outside of the pandemic period, although trailing behind inflation and causing a squeeze on the finances of households. This is reflected in real terms, where growth in average pay fell by 2.6%, which although this is a smaller fall than the record, it remains among the largest since comparable records began in 2001.

2.22 A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix 1**.

## 3 Local Context

2.1 On 31 January 2023 the council held £186.7 million of borrowing and £26.5 million of treasury investments. This is set out in further detail at **Appendix 2**. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

**Table 1: Balance Sheet Summary and Forecast**

| | 31.03.22 Actual £m | 31.03.23 Estimate £m | 31.03.24 Forecast £m | 31.03.25 Forecast £m | 31.03.26 Forecast £m |
|---|---|---|---|---|---|
| **Total CFR** | **404.0** | **395.8** | **395.8** | **415.7** | **429.7** |
| Less: Other debt liabilities* | (97.1) | (92.5) | (95.3) | (89.1) | (82.8) |
| **Loans CFR** | **306.9** | **303.3** | **300.5** | **326.6** | **346.9** |
| Less: External borrowing**/*** | (200.8) | (193.2) | (161.7) | (151.6) | (140.4) |
| **Internal borrowing** | **106.1** | **110.1** | **138.8** | **175.0** | **206.5** |
| Less: Balance sheet resources | (146.7) | (161.9) | (159.2) | (163.7) | (164.4) |
| **(Investments) / New borrowing *** ** | **(40.6)** | **(51.8)** | **(20.4)** | **11.3** | **42.1** |

* finance leases, PFI liabilities and transferred debt that form part of the council's total debt
** shows only loans to which the council is committed and excludes optional refinancing
*** External borrowing and New borrowing (less investments) equals Total Debt

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

2.3 The council's total CFR is forecast to increase due to the budgeted capital spend. continued capital investment under the council's existing Highways PFI (HPFI) and Waste contracts.

2.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the council's total debt should be lower than its highest forecast loans CFR over the next three years. Table 1 shows that the council expects to comply with this recommendation during 2023/24.

**Liability benchmark**:

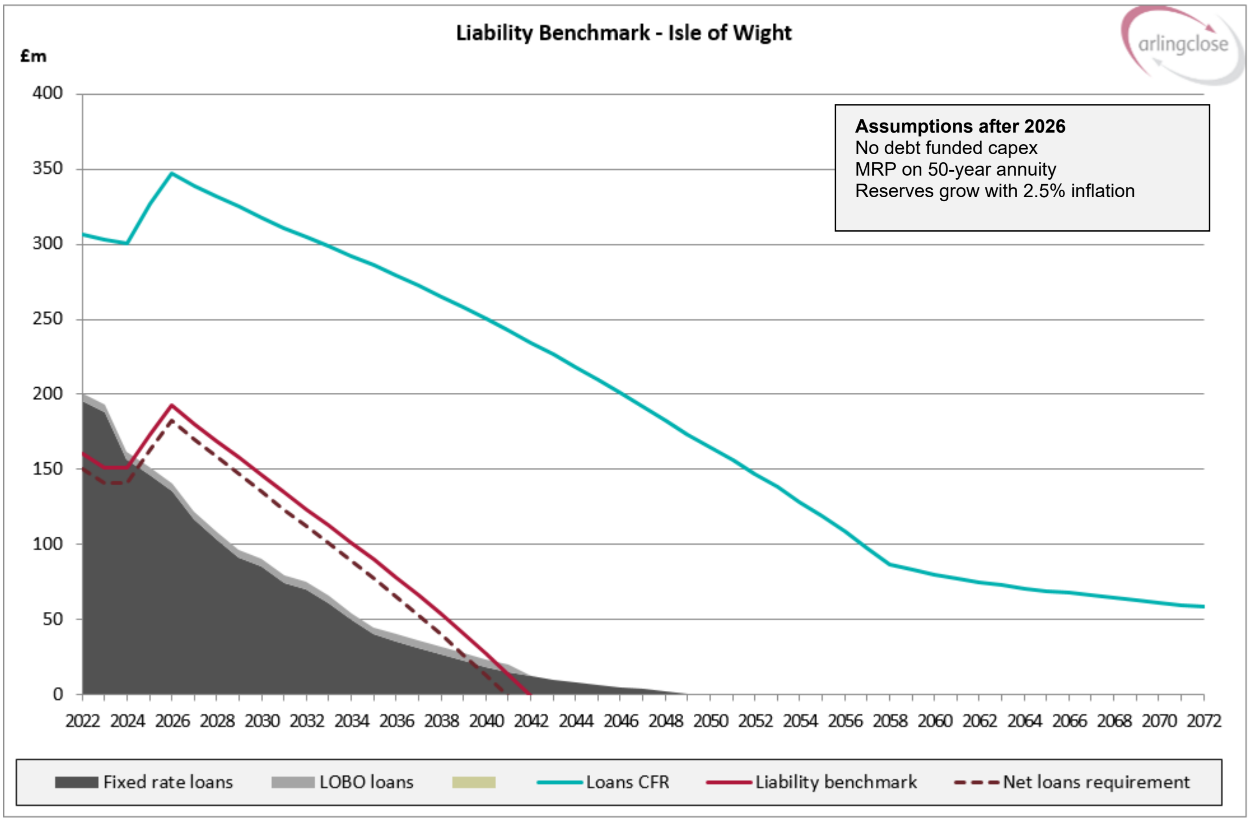
2.5 To compare the council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

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

**Table 2: Liability benchmark**

| | 31.03.22 Actual £m | 31.03.23 Estimate £m | 31.03.24 Forecast £m | 31.03.25 Forecast £m | 31.03.26 Forecast £m |
|---|---|---|---|---|---|
| Loans CFR | 306.7 | 303.3 | 300.5 | 326.6 | 346.9 |
| Less: Balance sheet resources | (146.7) | (161.9) | (159.2) | (163.7) | (164.4) |
| **Net Loans Requirement** | 160.0 | 141.4 | 141.3 | 162.9 | 182.5 |
| Plus: Liquidity Allowance | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| **Liability Benchmark** | **170.0** | **151.4** | **151.3** | **172.9** | **192.5** |

2.7 Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes no capital expenditure is funded by borrowing after 2026, Minimum Revenue Provision (i.e., the amounts set aside to repay debt) on new capital expenditure based on a 50-year asset life and income, expenditure and reserves all increasing by inflation of 2.5% a year from 2023 onwards. This is shown in the chart below together with the maturity profile of the council's existing borrowing:




# 4 Borrowing Strategy

2.1 The council currently holds £186.7 million of loans, a decrease of £17.4 million when compared to January 2022, as part of its strategy for funding previous years' capital programmes, in addition to funding part of the current year's capital expenditure programme. The balance sheet forecast in table 1 shows that the council expects to borrow up to £42.1 million in 2025/26 to fund capital expenditure. The council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for external borrowing of £410.0 million for 2023/24.

**Objectives:**

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

**Strategy:**

2.3 The council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

2.4 By doing so, the council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of either internal or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the council with the 'cost of carry' and breakeven analysis, which evaluates whether or not it is likely to be advantageous to take out new borrowing prior to need, in the knowledge that investing that new borrowing in the short term will carry a net cost. Its output may determine whether the council borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

2.5 The council has previously raised all its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long-term loans from other sources including banks, pensions (but not the Isle of Wight Pension Fund) and local authorities and could investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

2.6 Alternatively, the council may arrange forward starting loans, where the interest rate is fixed in advance, but the loan is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

2.7 In addition, the council may borrow further short-term loans to cover unplanned cash flow shortages.

**Sources:**

2.8 The council may borrow from any reputable source including:
- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below).
- any other bank or building society authorised to operate in the UK.
- any other UK public sector body.
- UK public and private sector pension funds (except Isle of Wight Council Pension Fund).
- capital market bond investors.
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

2.9 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- leasing.
- hire purchase.
- Private Finance Initiative.
- sale and leaseback.

**Municipal Bond Agency:**

2.10 UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the audit committee.

**LOBOs:**

2.11 The council holds £5.0 million of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the council has the option to either accept the new rate or to repay the loan at no additional cost. The full balance of these LOBOs has options during 2023/24, as interest rates have risen recently, there is now a possibility that lenders may exercise their options. If this happens then the council will take the option to repay the LOBO loan to reduce refinancing risk in later years. Total borrowing via LOBO loans will be limited to £5 million.

**Short-term and Variable Rate loans**:

2.12 These loans leave the council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. The council's strategy is to continue to use short-term loans, but to continue to monitor the expected long-term rates, based on the information provided by Arlingclose.

**Debt Rescheduling:**

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

# 5 Treasury Management Investment Strategy

2.14 As at 26 January 2023 the council held invested funds of £26.5 million, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the council's investment balance has ranged between £75.5 million and £26.0 million, and levels are expected to reduce in the forthcoming year due to the use of investment balances to repay maturing short-term borrowing.

**Objectives:**

2.15 The CIPFA Code requires the council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested (but without compromise to security or liquidity as mentioned above). The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

**Strategy:**

2.16 As demonstrated by the liability benchmark above, the council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

**ESG Policy:**

2.17 Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

**Business models**:

2.18 Under the IFRS 9 standard, the accounting for certain investments depends on the council's "business model" for managing them. The council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

**Approved Counterparties:**

2.19 The council may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

**Table 3: Approved Investment Counterparties and Limits**

| Sector | Time limit | Counterparty limit | Sector limit |
|---|---|---|---|
| The UK Government | 50 years | Unlimited | n/a |
| Local authorities & other government entities | 25 years | £20m | Unlimited |
| Secured investments* | 25 years | £10m | Unlimited |
| Banks (unsecured)* | 13 months | £12m | Unlimited |
| Building societies (unsecured)* | 13 months | £5m | £20m |
| Registered providers (unsecured)* | 5 years | £5m | £20m |
| Money market funds* | n/a | £16m | Unlimited |
| Strategic pooled funds | n/a | £10m | £40m |
| Real estate investment trusts | n/a | £10m | £20m |
| Other investments* | 5 years | £5m | £10m |

This table must be read in conjunction with the notes below

**Minimum Credit Rating:**

2.20 Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

2.21 For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £3,000,000 per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

**Government:**

Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

**Secured investments:**

2.22 Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

**Banks and building societies (unsecured):**

2.23 Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

**Registered Providers (unsecured):**

2.24 Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

**Money Market Funds:**

2.25 Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times

**Strategic Pooled Funds**

2.26 Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the council's investment objectives will be monitored regularly

**Real estate investment trusts (REIT):**

2.27 Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

**Other investments:**

2.28 This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the council's investment at risk.

**Operational bank accounts**:

2.29 The council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £500,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the council maintaining operational continuity. The council utilises Lloyds Bank for its day-to-day transactional banking, which has a credit rating of A+; the maximum investment limit for operational banking is therefore set according to table 3 above.

**Risk Assessment and Credit Ratings**:

2.30 Credit ratings are obtained and monitored by the council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

2.31 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

**Other Information on the Security of Investments**:

2.32 The council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria

2.33 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

**Investment Limits**:

5.22 The council's revenue reserves available to cover investment losses are forecast to be £123.4 million on 31 March 2023. In order that no more than 25% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government including Local Authorities) is £16.0 million.

5.23 A working limit, however, will be adopted of a £10.0m maximum investment meaning that unless exceptional circumstances arise for a £16.0m investment, the maximum loss on a single default will be limited to less than 15%. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

5.24 Limits will also be placed on fund managers, investments in brokers' nominee accounts, and foreign countries, as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

**Table 4: Additional Investment Limits**

| | Cash limit |
|---|---|
| Any group of pooled funds under the same management | £20m per manager |
| Negotiable instruments held in a broker's nominee account | £10m per broker |
| Foreign Countries | £10m per country |

**Liquidity Management:**

5.25 The council uses the Logotech PSTM system, purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a cautious basis, with receipts under-estimated and payments over-estimated, to minimise the risk of the council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the council's medium-term financial strategy and cash flow forecast.

5.26 The council will spread its liquid cash over at least four providers (e.g., bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider

## 6 Treasury Management Prudential Indicators

6.1 The council measures and manages its exposures to treasury management risks using the following indicators.

6.2 **Security:** The council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

| **Credit risk indicator** | **Target** |
|---|---|
| Portfolio average credit score | 5.00 |

6.3 **Liquidity:** The council maintains detailed cash flow forecasts with a view to keeping minimum surplus cash balances. It addresses liquidity issues by restricting a significant proportion of its investment opportunities to short term and instant access deposits.

6.4 The council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

| **Liquidity risk indicator** | **Target** |
|---|---|
| Total cash available within 3 months | £26.8m |

6.5 **Interest Rate Exposures (Borrowing and Lending)**: This indicator is set to control the council's exposure to interest rate risk. The upper limits on the one-year financial impact of a 1% rise or fall in interest rates will be:

| **Interest rate risk indicator** | **Limit £m** |
|---|---|
| Upper limit on one-year revenue impact of a 1% rise in interest rates | £0.2 |
| Upper limit on one-year revenue impact of a 1% fall in interest rates | £0.2 |

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

6.6 **Maturity Structure of Borrowing:** This indicator is set to control the council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

| Refinancing rate risk indicator | Upper | Lower |
|---|---|---|
| Under 12 months | 50% | 0% |
| 12 months and within 24 months | 30% | 0% |
| 24 months and within 5 years | 30% | 0% |
| 5 years and within 10 years | 75% | 0% |
| 10 years and above | 95% | 0% |

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

As a consequence of decision to borrow short, to take advantage of lower borrowing rates, the proportion of short-term debt is high in 2023/24. This is consistent with previous strategies.

6.7 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

| Price risk indicator | 2023/24 | 2024/25 | 2025/26 | No fixed date |
|---|---|---|---|---|
| Limit on principal invested beyond year end | £40m | £35m | £30m | £25m |

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

# 7 Other Items

The CIPFA Code requires the council to include the following in its treasury management strategy.

6.8 **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g., interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g., LOBO loans and callable deposits). The general power of competence in section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e., those that are not embedded into a loan or investment

6.9 The council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

6.10 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

6.11 In line with the CIPFA code, the council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

6.12 **Markets in Financial Instruments Directive:** The council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the council's treasury management activities, the Director of Finance and Section 151 Officer believes this to be the most appropriate status.

6.13 **Investment Advisers:** The council has engaged Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is reviewed at an annual meeting, and advice is assessed through regular contact and meetings with the advisers throughout the year to review the outcomes of their advice.

# 8 Financial Implications

6.14 The budget for investment income in 2023/24 is £0.16 million and based on an average investment portfolio of £15 million. The budget for debt interest paid in 2023/24 is £9.65 million, based on an average debt portfolio of £205 million. If actual levels of investments and borrowing, and actual interest rates differ from forecast then performance against budget will be correspondingly different.

# 9 Other Options Considered

6.15 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance and Section 151 Officer, having consulted the members of the audit committee, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

| Alternative | Impact on income and expenditure | Impact on risk management |
|---|---|---|
| Invest in a narrower range of counterparties and/or for shorter times | Interest income will be lower | Lower chance of losses from credit related defaults, but any such losses may be greater |
| Invest in a wider range of counterparties and/or for longer times | Interest income will be higher | Increased risk of losses from credit related defaults, but any such losses may be smaller |
| Borrow additional sums at long-term fixed interest rates | Debt interest costs will rise; this is unlikely to be offset by higher investment income | Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain |
| Borrow short-term or variable loans instead of long-term fixed rates | Debt interest costs will initially be lower | Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain |
| Reduce level of borrowing | Saving on debt interest is likely to exceed lost investment income | Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain |

# Appendix 1 – Arlingclose Economic & Interest Rate Forecast (February 2022)

**Underlying assumptions:**

1 The Federal Reserve (Fed) signalled a shift away from frontloading monetary policy tightening, suggesting future decisions will be more data dependent. This supported market expectations that global central banks are at or nearing peak interest rates.

2 The BoE's rate decision to increase the Bank Rate to 4% further underlined by this. While the MPC remains concerned that domestic inflationary pressure will remain elevated, the CPI rate is projected to fall below target in the medium term as monetary tightening takes its toll on economic activity.

3 The UK economy has perhaps proved more resilient than expected, but Arlingclose believes that a recession and/or period of stagnant growth is likely in 2023, and subsequent years, as the combination of higher interest rates, low investment and rising unemployment depress overall activity.

4 The lagged effect of the sharp tightening of monetary policy, higher mortgage rates, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. Arlingclose considers that it is difficult to see households providing any support to GDP growth in 2023.

5 Workforce shortage in the labour market is contributing to low unemployment (albeit with higher inactivity) and higher wages. While real wage growth is negative, high nominal wage growth has increased company costs and allowed them to pass these through to consumers, particularly in the services sector. Arlingclose expect to see a weaker labour market as demand for labour ebbs, but Bank Rate will remain high until both services inflation and nominal wage growth declines.

6 Global bond yields remain volatile as investors price in slower growth and easier monetary policy, amid continuing resilience in headline economic data (particularly US labour market) and central bank push back on expectations for rate cuts in 2023. The Fed wants to see persistently higher policy rates and the European Central Bank (ECB) remains in forceful tightening mode.

7 Gilt yields will be supported by both significant new bond supply, quantitative tightening and hawkish central banks, offsetting the downward effects of declining inflation and growth.

8 The likelihood of policy rates remaining higher for too long cannot be discounted, which will lead to more severe downturns than may have been warranted, and therefore more significant monetary loosening over the medium term

**Forecast:**

9 Arlingclose expects that while there will still be hawkish elements on the MPC, we believe there will only be one further rise to 4.25% in March.

10 Arlingclose therefore anticipates that the MPC will cut rates in the medium term to stimulate a stuttering UK economy, but it will be reluctant to do so until services inflation and wage growth eases. Arlingclose foresees that there will be rate cuts in the first quarter of 2024 to a low of 3% by 2025 although the timing and extent of rate cuts remains highly uncertain.

11 Arlingclose expect that gilt yields will remain broadly steady over the medium term, although with continued volatility across shorter time periods.

12 There are pressures on gilt yields from both sides. While there are growing fears of a global decline in economic activity and an expectation of falling inflation rates; these downward effects on gilt yields will be partly offset by hawkish leaning central bankers, BoE bond sales and high government borrowing.

| | Current | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Official Bank Rate** | | | | | | | | | | | | | |
| **Upside Risk** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Central Case** | 4.00 | 4.25 | 4.25 | 4.25 | 4.25 | 4.00 | 3.75 | 3.50 | 3.25 | 3.00 | 3.00 | 3.00 | 3.00 |
| **Downside Risk** | 0.00 | -0.25 | -0.25 | -0.25 | -0.50 | -0.75 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |
| **3-month money market rate** | | | | | | | | | | | | | |
| **Upside Risk** | 0.00 | 0.25 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| **Central Case** | 4.20 | 4.40 | 4.40 | 4.40 | 4.35 | 4.15 | 4.10 | 4.00 | 3.75 | 3.50 | 3.40 | 3.40 | 3.40 |
| **Downside Risk** | 0.00 | -0.25 | -0.25 | -0.25 | -0.50 | -0.75 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |
| **5yr gilt yield** | | | | | | | | | | | | | |
| **Upside Risk** | 0.00 | 0.75 | 0.80 | 0.90 | 0.90 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| **Central Case** | 3.06 | 3.20 | 3.20 | 3.20 | 3.20 | 3.10 | 3.10 | 3.10 | 3.00 | 3.00 | 3.00 | 3.00 | 3.10 |
| **Downside Risk** | 0.00 | -0.50 | -0.70 | -0.90 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |
| **10yr gilt yield** | | | | | | | | | | | | | |
| **Upside Risk** | 0.00 | 0.70 | 0.80 | 0.90 | 0.90 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| **Central Case** | 3.19 | 3.30 | 3.30 | 3.30 | 3.30 | 3.20 | 3.20 | 3.20 | 3.20 | 3.20 | 3.20 | 3.20 | 3.20 |
| **Downside Risk** | 0.00 | -0.50 | -0.70 | -0.90 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |
| **20yr gilt yield** | | | | | | | | | | | | | |
| **Upside Risk** | 0.00 | 0.70 | 0.80 | 0.90 | 0.90 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| **Central Case** | 3.71 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 |
| **Downside Risk** | 0.00 | -0.50 | -0.70 | -0.90 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |
| **50yr gilt yield** | | | | | | | | | | | | | |
| **Upside Risk** | 0.00 | 0.70 | 0.80 | 0.90 | 0.90 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| **Central Case** | 3.43 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 |
| **Downside Risk** | 0.00 | -0.50 | -0.70 | -0.90 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |

PWLB standard rate = relevant gilt yield + 1.00%
PWLB certainty rate = relevant gilt yield + 0.80%

# Appendix 2 – Existing Investment & Debt Portfolio Position

| | 26 January 2023 Actual Portfolio £m | 26 January 2023 Average Rate % |
|---|---|---|
| **External Borrowing:** | | |
| Public Works Loan Board | 171.7 | 3.18% |
| Local authorities | 10.0 | 0.12% |
| LOBO loans from banks | 5.0 | 4.27% |
| **Total External Borrowing** | **186.7** | **3.05%** |
| **Other Long-Term Liabilities** | | |
| PFI | 92.1 | |
| Finance Leases | 0.3 | |
| Transferred Debt | - | |
| **Total Gross External Debt** | **279.1** | |
| **Investments** | | |
| Banks & Building Societies (unsecured) | - | |
| Government (incl. local authorities) | - | |
| Money Market Funds | (26.50) | (3.23%) |
| Other Pooled Funds | - | |
| **Total Investments** | **(26.50)** | **(3.23%)** |
| **Net Debt** | **252.60** | |

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# Treasury Management Strategy 2023/24

## Variation against 2022/23

**Section 1** – Introduction

There have been no Changes

**Section 2** – External Context

This is specific to the current year

**Section 3** – Local Context

3.1 The level of borrowing and investment has changed as below:

| | 2021/22 Strategy 29 January 2021 £m | 2022/23 Strategy 31 January 2022 £m |
|---|---|---|
| Borrowing | 204.1 | 186.7 |
| Investments | 75.5 | 26.5 |

*Table 1* – the figures in the 2023/24 strategy show the current forecast for CFR, External Borrowing and new investments or new borrowing.

There is a forecast reduction in the CFR figure for year ended 31 March 2024 which translates to a forecast investment, which has changed from the borrowing for this year that was in the 2022/23 strategy.

There is also a reduction forecast in 2025 which results in a substantial reduction in the level of new borrowing forecast for the year ended 31 March 2025 in the current strategy.

*3.3* The wording has been amended to reflect the substantial reduction in the Capital programme that was agreed as part of the budget setting.

*3.6* This is a new paragraph explaining what the liability benchmark is showing.

*Table 2* – due to the changes in the CFR figures mentioned above and with relationship to Table 1 the liability benchmark figures have reduced compared to the figures in the 2022/23 strategy.

The rest of section 3 is unchanged

**Section 4** – Borrowing Strategy

*4.1* The figures have been updated in the 2023/24 strategy and link to the figures in section 3.1 and table 1

*4.3* the wording has changed slightly due to changes in circumstance with regard to funding.

*4.11* the wording has changed slightly due to changes in the level of interest rates and the possible affect it will have on our LOBO loan

The rest of section 4 is unchanged.

**Section 5** – Treasury Management Investment Strategy

*5.1* The figures have been updated in the 2023/24 strategy and link to the figures in section 3.1

*5.2* a sentence has been added regarding ESG issues

*Paragraph 5.3* in the 2022/23 strategy regarding negative interest rates has been removed as it is not expected to apply

*Paragraph 5.3* (5.4 in 2022/23) the investment strategy has been amended to reflect the change in circumstances since the previous year.

*Paragraph 5.4* regarding ESG Policy has been included in the 2023/24 strategy

*Table 3* – the approved counterparty limits have not been amended

*5.22* – Investment Limits although the forecast reserves figure is higher in 2023/24 strategy the actual investment limit per counterparty has not changed.

*Table 4* – the additional investment limits have not been amended

The rest of section 5 is unchanged.

**Section 6** – Treasury Management Prudential Indicators

Credit Risk Indicator – this has not changed

Liquidity risk indicator – this has increased by £5.8m

Interest rate risk indicator – this has reduced by £0.2m

Refinancing risk indicator – this has not changed

Price risk indicator – a new category has been included, but the other figures have not changed

**Section 7** – Other Items

Paragraphs 7.6 & 7.7 in 2022/24 strategy have been removed from the 2023/24 document

There have been no further changes in section 7.

**Section** 8 – Financial implications

The budget for investment income and debt interest is the same for each year.

**Section 9** – Other Options

There have been no changes

**Appendix 1** – Economic & Interest Rate Forecast

This is specific to the current year

**Appendix 2** – Existing Investment & Debt Portfolio

The movement between 31/1/2022 and 26/01/2023 is shown below

| | Difference between 31/01/22 and 26/01/23 £m | Difference between 31/01/22 and 26/01/23 Average Rate % |
|---|---|---|
| **External Borrowing:** | | |
| Public Works Loan Board | (12.40) | (0.05%) |
| Local authorities | (5.00) | (0.03%) |
| LOBO loans from banks | - | - |
| **Total External Borrowing** | **(17.40)** | **(0.02%)** |
| **Other Long-Term Liabilities** | | |
| PFI | (4.70) | |
| Finance Leases | (0.20) | |
| Transferred Debt | - | |
| **Total Gross External Debt** | **(22.30)** | |
| **Investments** | | |
| Banks & Building Societies (unsecured) | 10.00 | 0.12% |
| Government (incl. local authorities) | 40.50 | 0.13% |
| Money Market Funds | (1.50) | (3.11%) |
| Other Pooled Funds | - | |
| **Total Investments** | **49.00** | (3.10%) |
| **Net Debt** | **26.70** | |

Purpose: For Noting

# Committee report

| | |
|---|---|
| Committee | **AUDIT COMMITTEE** |
| Date | **20 MARCH 2023** |
| Title | **TREASURY MANAGEMENT 2022-23 QUARTER 3 REPORT** |
| Report of | **PENSION FUND & TREASURY MANAGEMENT ACCOUNTANT** |

## EXECUTIVE SUMMARY

1. In accordance with the council's Treasury Management Strategy 2022-23, this report presents a report on treasury management policies, practices and activities for the nine months to 31 December 2022.

2. In March 2022, the committee approved the Treasury Management Strategy for 2022-23 and this is the third of the regular progress reports on treasury management activities.

3. The council's activities have fallen within the boundaries of the prudential indicators set for the year.

4. The committee is asked to note this report and highlight any areas which may need to be addressed in the forthcoming year.

## RECOMMENDATION

5. That the committee notes the performance for the nine months to 31 December 2022 against the treasury management indicators.

## BACKGROUND

6. The council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the code), which requires authorities annually to produce prudential indicators and a treasury management strategy statement on the likely financing and investment activity. The code also requires that councillors are informed of treasury management activities on a quarterly basis.

7. The report in Appendix 1, has been produced from a template provided by the council's treasury management advisor, Arlingclose Limited. It sets out a summary of the council's treasury management activities during the nine months to 31 December 2022, and its performance against the prudential indicators that were approved as part of the Treasury Management Strategy.

8. Appendix 1 also includes a summary of the economic outlook provided by Arlingclose, based on information on 11 January 2023. Arlingclose has revised their forecast for the Bank of England base rate. They anticipate a further 0.25% increase by March 2023 and that this rate will be held until December 2023 when it will start to fall.

9. The code of practice defines treasury management as follows:
"*The management of the council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*"

10. The code of practice requires that a report be provided on the actual performance of the council against the following prudential indicators at the end of each financial year and that it encompasses:
- the revenue effect of transactions executed.
- the risk implications for decisions made.
- compliance on agreed policies / practices and statutory / regulatory requirements.
- performance report.
- compliance with the CIPFA code recommendations.
- monitoring of treasury management indicators.

11. Detailed information on the council's performance in respect of these items is set out in Appendix 1 to this report.

## CORPORATE PRIORITIES AND STRATEGIC CONTEXT

12. The council's arrangements for treasury management support effective service and project delivery across the authority, in turn supporting the key priorities set out in the Corporate Plan 2021 – 2025.

13. There is a need for regular review of the Treasury Management Strategy, in line with the Corporate Plan and Medium-Term Financial Strategy, to ensure the key priorities of the council continue to be deliverable within the reduced resources available to the council.

14. The Treasury Management Strategy is reviewed and updated annually in March and approved by the Audit Committee.

### Responding to climate change and enhancing the biosphere

15. Through its treasury management activity, the council invests in a combination of money market funds, call accounts maintained by banks and in other local authorities. The council needs to review these investments in relation to their impact on the council's Climate and Environment Strategy.

16. As a result, each of the financial institutions that the council invests in has provided their Environmental, Social and Governance statements, together with any specific statements relating to climate change.

17. The council will include all scope 1 and 3 emissions created directly by itself or indirectly (for example emissions made by our contractors, investments or travel) in our annual carbon footprint.

18. Investments count towards downstream scope 3 emissions which contribute towards the Council's overall carbon footprint.

Economic Recovery and Reducing Poverty

19. Although there is no direct impact within the report at Appendix 1 relating to this corporate priority, the Treasury Management Strategy and the prudential indicators that are set, enable the council to contribute towards reducing the numbers of residents, and especially children, who are living in poverty.

Impact on Young People and Future Generations

20. Although there is no direct impact within the report at Appendix 1 relating to this corporate priority, the Treasury Management Strategy and the prudential indicators that are set, enable the council to contribute towards the future sustainability of the council.

## CONSULTATION

21. The treasury management report for nine months to 31 December 2022, has been considered by senior accountants within the Financial Management team, including the Director of Finance and the Assistant Director of Finance.

22. No external consultation has been undertaken.

## FINANCIAL / BUDGET IMPLICATIONS

23. The council's current treasury management arrangements are conducted by council staff, with support from an external treasury management advisor, Arlingclose Limited, within existing budgets.

24. The Treasury Management Strategy includes the overall management of the council's cash flow and borrowing strategy. With interest rates having been low over the last few years, it was decided to take a combination of short-term and long-term borrowing in order to balance the requirement for low interest costs and achieving cost certainty

25. Even though interest rates are currently increasing, due to current lower levels of short-term borrowing, the council is forecasting lower than budgeted costs of borrowing, this has resulted in a forecast net saving of £2.0m which will contribute towards the overall financial result of the council.

26. The recent increases in interest rates will have a minimal effect on the cost of borrowing for the Council as most of the borrowing, £176.7m of a total of £186.7m, are long-term fixed-rate loans. It has been necessary to take out a further £20m of borrowing which is due to start before the end of the financial year, of which half is to replace existing loans which are due to mature.

27. Due to the recent increase in interest rates these loans have had to be secured at a higher rate than in the previous year.

28. The effect on interest income will also be minimal, as the level of investments are not high as they have been used to repay short-term borrowing during the year,

thus, minimising the interest rate risk. The council invests mainly in instant access bank accounts and money market funds.

LEGAL IMPLICATIONS

29. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 explicitly require English authorities to "have regard" to the CIPFA Code of Practice for Treasury Management.

30. Should the council not receive this report, it is in breach of the requirements set out in the code and the council's approved Treasury Management Strategy 2022-23.

EQUALITY AND DIVERSITY

31. The council as a public body is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

32. The annual treasury management report has no implications for any of the protected characteristics.

RISK MANAGEMENT

33. Treasury management activities have a high level of risk in that they relate to transactions that can amount to several million pounds which are undertaken with external bodies. When the council has surplus monies to invest, there are risks if those organisations to whom it lends default on repayment (counterparty risk). The costs to the council of its treasury management activities are dependent on fluctuating interest rates.

34. The overall strategy of borrowing short-term and avoiding long-term debt carries the risk that, if interest rates suddenly rise, when longer term debt is eventually required, it will cost more (refinancing risk).

35. The council manages the counterparty risk by adopting a treasury management strategy which includes maintaining a limited list of organisations to which it is authorised to lend and restricting the maximum amount to be invested with each organisation, based on advice obtained from its external treasury management advisor, Arlingclose Limited.

36. The refinancing risk is mitigated by maintaining a combination of both short-term and long-term borrowing, which is regularly reviewed, based on interest rate projections provided by Arlingclose Limited.

37. It also operates protocols for maintaining financial controls. The treasury management function is reviewed by the council's internal auditors on a regular basis. The most recent review which was based on the 2019-20 transactions provided the highest level of assurance on the operation of these controls.

38. The council is obliged under section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs. Failure to comply with the code could result in adverse comments being raised by the council's external auditors.

39. The committee's overview of the council's treasury management arrangements plays an important part in the council's overall governance regime. It has an important role to play in the monitoring of treasury management activities, including overview of the risks faced by this function both internally, which are directly controllable through segregation of duties and reporting arrangements, and externally, controllable through the monitoring of counterparties and lending limits, and also regular monitoring of general economic factors.

## EVALUATION

40. The council's treasury management activities for the nine months to 31 December 2022 have fallen within the boundaries of the agreed strategy for 2022-23.

## APPENDICES ATTACHED

41. Appendix 1 – Treasury Management 2022/23 Q3 Report

## BACKGROUND PAPERS

42. Treasury Management Strategy 2022-23 (Audit Committee 14 March 2022, Item 9) (Public Pack)Agenda Document for Audit Committee, 14/03/2022 10:00 (moderngov.co.uk)

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e-mail *jo.cooke1@iow.gov.uk*

| CHRIS WARD<br>*Director of Finance and Section 151 Officer* | COUNCILLOR CHRIS JARMAN<br>*Cabinet Member for Strategic Finance, Transformational Change, and Corporate Resources* |
|---|---|

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**Treasury Management Quarter 3 Performance Report 2022 / 23**

1. **Introduction**

2. In February 2011 the council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the council to approve, as a minimum, treasury management semi-annual and annual reports.

3. The council's treasury management strategy for 2022/23 was approved at a meeting on 14 March 2022. The council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the council's treasury management strategy.

4. The 2021 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The council's capital strategy was approved by full council on 23 February 2022.

5. Treasury risk management at the council is conducted within the framework of the TM Code. This Code now also includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

6. **External Context provided by Arlingclose Limited (produced 11 January 2023)**

7. Economic background: The conflict in Ukraine continued to keep global inflation elevated and the UK and global economic outlook remains weak. Political uncertainty in the UK improved in the later part of the period following a change in government to what financial markets perceived as being more fiscally prudent.

8. The economic backdrop during the April to December period continued to be characterised by high energy and commodity prices, high inflation and the associated impact on consumers' cost of living, as well as little likelihood that the Russia-Ukraine hostilities will end any time soon. China started to lift some of its zero-Covid policy restrictions at the end of the period causing a sharp increase in infections, but also leading to questions over potential under reporting of the number of cases by the Chinese government due to how it is counting the figures.

9. Central Bank rhetoric and action continued to remain robust. The Bank of England, Federal Reserve and the European Central Bank all increased interest rates over the period and committed to fighting inflation, even in the face of potential recessions in those regions.

10. UK inflation remained high, but there were tentative signs it may have peaked. Annual headline CPI registered 10.7% in November, down modestly from 11.1% in October. RPI was 14% in November, down from 14.2% in October, but slightly above expectations for a larger fall to 13.9%.

11. The UK government under Rishi Sunak and Jeremy Hunt reversed some of the support to household energy bills announced under the previous Liz Truss leadership. The previous support package which would have seen average consumption cost £2,500 annually until 2024 was replaced by a less generous scheme which was only maintained at this level until March 2023, to be replaced by a higher cap of £3,000 per year for the typical household from April onwards.

12. The labour market remained tight but with some evidence of softening demand for new labour. The unemployment rate 3m/year for April-June was 3.8%, which declined to 3.6% in July-September and picked up again to 3.7% in October-December. The inactivity rate was 21.5% in the latest quarter, down by 0.1% compared to the previous period. Pay growth in October-December was 6.1% for both total pay (including bonuses) and for regular pay. Once adjusted for inflation, however, both measures fell by 2.7%.

13. Household disposable income remained under pressure, pushing consumer confidence down to a record low of –49 in September, but following months showed registered modest improvements to December's reading of –42. Quarterly GDP for the April-June quarter was revised upwards to 0.2% (from -0.1%), following revisions to household and government spending, but fell by -0.3% in the July-September quarter, a larger decline than the -0.2% predicted.

14. The Bank of England increased the official Bank Rate to 3.5% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with outsized hikes of 50bps in August and September, 75bps in November and then another 50bps in December. November's rise was voted by a majority of 7-2, with one MPC member preferring a 0.5% rise and another a 0.25% rise. The December vote was 6-3, with two members preferring to keep Bank Rate on hold at 3% while one member wanted a larger increase of 0.75%. Once again, the Committee noted that domestic inflationary pressures are expected to remain strong and continuing rhetoric around combating inflation means further rate rises are predicted.

15. After hitting 9.1% in June, annual US inflation slowed for a further five consecutive months, with relatively strong falls in October to 7.7% and then in November to 7.1%. The Federal Reserve continued raising interest rates over the period with four consecutive increases of 0.75% in June, July, September, and November respectively, followed by 50bp in December taking policy rates to a range of 4.25% - 4.50%.

16. Eurozone CPI inflation hit a record-high of 10.6% y/y in October following rises in each month over the period. In November inflation fell to 10.1%, the first decline since June 2021. Energy prices remained the largest upward contribution to the price increase. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in December following two consecutive months of 0.75% rises, taking the deposit facility rate to 2% and the main refinancing rate to 2.5%.

17. **Financial markets**: Uncertainty remained a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates. In September and October, volatility in financial markets was significantly exacerbated by the fiscal plans of the then UK government (under Liz Truss), leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling. However, the subsequent change of government leadership to Rishi Sunak and Jeremy Hunt lead to gilts yields falling in November and December, albeit at higher levels compared to earlier in the period.

18. Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the calendar year at 3.62%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.67%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 4.03%. The Sterling Overnight Rate (SONIA) averaged 1.75% over the period.

19. **Credit review:** During the last few months of the period, in October Fitch revised the outlook on the UK sovereign to negative from stable following the largely unfunded fiscal package announced at the time, and a few weeks prior revised the outlook on HSBC to stable from negative.

20. Over the same timeframe Moody's also revised the UK sovereign to negative from stable, following swiftly after with a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank (and related entities) and Santander.

21. Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks earlier in the year (May), Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.

22. Although local authorities remain under financial pressure, Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.

**23.** Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

**<u>Local Context</u>**

24. On 31 March 2022, the council had net borrowing of £150.3m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital

purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

| | 31.03.2022 Actual £m |
|---|---|
| **Total CFR **** | 404.0 |
| Less Other Debt Liabilities * | (97.1) |
| **Borrowing CFR** | **306.9** |
| External Borrowing | **(200.8)** |
| **Internal borrowing** | **106.1** |
| Less Usable Reserves | (132.8) |
| Less Working Capital ** | (13.9) |
| **Net Investments** | **(40.6)** |

* Finance leases, PFI liabilities and transferred debt that form part of the council's total debt
** This figure has been updated to reflect the figures in the final draft 2021/22 Statement of Accounts (subject to external audit).

25. The treasury management position on 31 December 2022 and the change over the nine months year to date is shown in Table 2 below.

Table 2: Treasury Management Summary

| | 31.03.2022 Balance £m | Movement £m | 31.12.2022 Balance £m | 31.12.2022 Average Rate % |
|---|---|---|---|---|
| Long-term borrowing | 185.8 | (9.1) | 176.7 | 3.09% |
| Short-term borrowing | 15.0 | (5.0) | 10.0 | 0.12% |
| **Total borrowing** | **200.8** | **(14.1)** | **186.7** | **3.05%** |
| Short term Investments | (50.5) | 24.0 | (26.5) | 3.23% |
| **Total investments** | **(50.5)** | **24.0** | **(26.5)** | **3.23%** |
| **Net borrowing** | **150.3** | **9.9** | **160.2** | **3.02%** |

26. The reduction in total borrowing during the half year has arisen as per below:

| | £'m |
|---|---|
| Redemption of Short-term borrowing | 5.0 |
| Repayment of PWLB at maturity | 5.5 |
| Repayment of PWLB EIP installments * | 3.6 |
| | 14.1 |

* These are loans where the principle is repaid in equal instalments throughout the duration of the loan

27. **Borrowing**

28. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the council.

29. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the council intends to avoid this activity in order to retain its access to PWLB loans.

30. The council currently holds £41.35m in commercial investments that were purchased prior to the change in the CIPFA Prudential Code.

31. **Borrowing Strategy and Activity**

32. As outlined in the treasury strategy, the council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the council's long-term plans change being a secondary objective. The council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

33. The cost of both long- and short-term borrowing has risen dramatically over the April to December period, with rates at the end of December around 2% to 3% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Particularly dramatic rises were seen in September after Liz Truss' 'mini-budget' included unfunded tax cuts and additional borrowing to fund consumer energy price subsidies: over a twenty-four-hour period, some PWLB rates increased to 6%. Rates have now fallen from September peaks but remain well above recent historical norms. The PWLB 10-year maturity certainty rate stood at 4.59% at the end of 2022.

34. In keeping with the council's objectives, during the nine months of this report, no new borrowing was undertaken. This strategy enabled the council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

35. On 31 December the council held £186.7m of loans, a decrease of £14.1m from 31 March 2022, as part of its strategy for funding previous and current years' capital programmes.

36. Outstanding loans on 31 December are summarised in Table 3 below.

Table 3: Borrowing Position

| | 31.03.22 Balance £m | Net Movement £m | 31.12.22 Balance £m | 31.12.22 Weighted Average Rate % | 31.12.22 Weighted Average Maturity (years) |
|---|---|---|---|---|---|
| Public Works Loan Board | 180.8 | (9.1) | 171.7 | 3.18% | 14.61 |
| Banks (LOBO) | 5.0 | - | 5.0 | 4.27% | 18.92 |
| Banks (fixed term) | - | - | - | | |
| Local authorities (long-term) | - | - | - | | |
| Local authorities (short-term) | 15.0 | (5.0) | 10.0 | 0.12% | 0.12 |
| **Total borrowing** | **200.8** | **(14.1)** | **186.7** | **3.05%** | **13.95** |

37. There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The council will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

38. LOBO loans: The council continues to hold £5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the council has the option to either accept the new rate or to repay the loan at no additional cost. The set dates are the 23 May and 23 November of each year. No banks exercised their option during the quarter.

39. **Treasury Management Investment Activity**

40. CIPFA revised TM Code defines treasury management investments as those which arise from the council's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.

41. The council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year to date, the council's investment balances ranged between £59.5 (01/04-12/04/22) and £26.0 (19/12/22) million due to timing differences between income and expenditure.

42. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

| | 31.03.2022 Balance £m | Net Movement £m | 31.12.2022 Balance £m | 31.12.2022 Income Return % | 31.12.2022 Weighted Average Maturity days |
|---|---|---|---|---|---|
| Banks & Building societies (unsecured) | (1.0) | 1.0 | 0.0 | 0.00% | 0 |
| Covered bonds (secured) | - | - | - | - | - |
| Govt (incl local authorities) | (40.5) | 40.5 | 0.0 | 0.00% | 0 |
| Isle of Wight Council Pension Fund | - | - | - | - | - |
| Corporate bonds and loans | - | - | - | - | - |
| Money Market Funds | (9.0) | 35.5 | 26.5 | 3.23% | 1 |
| Other Pooled Funds | - | - | - | - | - |
| **Total Investments** | **(50.5)** | **77.0** | **26.5** | **3.23%** | **1** |

43. Both the CIPFA Code and government guidance require the council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

44. The Bank Rate has increased from 0.75% at the beginning of the period under review to 3.5% at the end, with the prospect of further increases to come. Short-dated cash rates, which had ranged between 0.7% - 1.5% at the end of March, rose by around 2.7% for overnight/7-day maturities and 3.0% for 6-to-12-month maturities.

45. By end December, the rates on DMADF deposits ranged between 3.82% and 3.88%. The return on the council's sterling low volatility net asset value (LVNAV) Money Market Funds ranged between 0.9% - 1.1% p.a. in early April and between 3.15% and 3.31% at the end of December

46. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

| | Credit Score | Credit Rating | Bail-in exposure % | Weighted Average Maturity days | Rate of Return % |
|---|---|---|---|---|---|
| 31.12.2021 | 4.71 | A+ | 39% | 134 | 0.11% |
| 31.03.2022 | 4.62 | A+ | 20% | 123 | 0.20% |
| 30.06.2022 | 4.67 | A+ | 43% | 72 | 0.46% |
| 30.09.2022 | 4.87 | A+ | 58% | 28 | 1.45% |
| 31.12.2022 | 4.74 | A+ | 100% | 1 | 3.23% |
| **Similar LAs** | **4.51** | **A+** | **59%** | **45** | **2.85%** |
| **All LAs** | **4.41** | **AA-** | **60%** | **14** | **2.80%** |

47. **Non-Treasury Investments**

48. The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the council as well as other non-financial assets which the council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e., management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

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

50. The council also held £46.64m of such investments in

- directly owned property £41.35m
- shared ownership housing £3.99m
- loans to local businesses £1.30m

51. A full list of the council's non-treasury investments is available in the Isle of Wight Council's Statement of Accounts 2021-22 which can be accessed via the website.

52. These investments generated £0.8m of investment income for the council during 2021-22, after taking account of direct costs, representing a rate of return of 1.95%.

**53. Treasury Performance**

54. The council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

| | Forecast £m | Budget £m | Over / (Under) £m | Forecast % | Benchmark % | Over / (Under) % |
|---|---|---|---|---|---|---|
| Total Investment Income | (0.5) | (0.2) | (0.3) | 1.04% | 2.80% | (1.76%) |
| Total Cost of Borrowing | 8.0 | 9.7 | (1.7) | 2.54% | | 2.54% |
| **GRAND TOTAL** | 7.5 | 9.5 | (2.0) | n/a | n/a | n/a |

55. **Compliance**

56. The Director of Finance and Section 151 Officer reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice and the council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

57. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: Debt Limits

| | 2022/23 Maximum £m | 31.12.2022 Actual £m | 2022/23 Operational Boundary £m | 2022/23 Authorised Limit £m | Complied ? |
|---|---|---|---|---|---|
| Borrowing | 200.8 | 186.7 | 354.0 | 440.0 | ✓ |
| PFI and Finance Leases | 97.1 | 97.1 | 111.0 | 140.0 | ✓ |
| **Total Debt** | **297.9** | **283.8** | **465.0** | **580.0** | ✓ |

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

Table 8: Investment Limits

| | 2022/23 Maximum £m | 31.12.2022 Actual £m | 2022/23 Limit £m | Complied? |
|---|---|---|---|---|
| Any single organisation, except the UK Government | 5.0 | 4.0 | 12.0 | ✓ |
| Any group of organisations under the same ownership | 3.0 | 2.0 | 12.0 | ✓ |
| Money Market Funds | 17.0 | 10.0 | Unlimited | |

59. **Treasury Management Indicators**

60. The council measures and manages its exposures to treasury management risks using the following indicators.

61. **Security:** The council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

| | 31.12.22 Actual Average Score | 2022/23 Maximum Average Target | Complied? |
|---|---|---|---|
| Portfolio average credit score | 4.74 | 5.0 | ✓ |

62. The council measures the security of its investments using data provided by Arlingclose. The target figure is equivalent to an average rating for the investment portfolio of A+. In the Treasury Management Strategy, it is stated that treasury investments will only be made with entities with a long-term credit rating of A- and above. By imposing a target of 5 (A+) the council is aiming to ensure that the investments held are of a lower risk (higher rating) than this minimum level.

63. **Liquidity:** The council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

| | 31.12.22 Actual £m | 2022/23 Target £m | Complied? |
|---|---|---|---|
| Total cash available within 3 months | 26.5 | 21 | ✓ |

64. **Interest Rate Exposures**: This indicator is set to control the council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

| Interest rate risk indicator | 31.12.22 Actual £m | 2022/23 Limit £m | Complied? |
|---|---|---|---|
| Upper limit on one-year revenue impact of a 1% rise in interest rates | -0.1 | -0.4 | ✓ |
| Upper limit on one-year revenue impact of a 1% fall in interest rates | 0.1 | 0.4 | ✓ |

65. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

66. **Maturity Structure of Borrowing:** This indicator is set to control the council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

| | 31.12.22 Actual | Upper Limit | Lower Limit | Complied? |
|---|---|---|---|---|
| Under 12 months | 7% | 50% | 0% | ✓ |
| 12 months and within 24 months | 3% | 30% | 0% | ✓ |
| 24 months and within 5 years | 15% | 30% | 0% | ✓ |
| 5 years and within 10 years | 12% | 75% | 0% | ✓ |
| 10 years and above | 62% | 95% | 0% | ✓ |

67. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment

68. **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

| | 2022/23 £m | 2023/24 £m | 2024/25 £m |
|---|---|---|---|
| Actual principal invested beyond year end | - | - | - |
| Limit on principal invested beyond year end | 40 | 35 | 30 |
| Complied? | ✓ | ✓ | ✓ |

69. **<u>Arlingclose's Economic Outlook for the remainder of 2022/23 (based on 19 December 2022 interest rate forecast)</u>**

| | Current | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Official Bank Rate | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.50 | 0.75 | 1.00 | 1.00 | 1.00 | 1.25 | 1.50 | 1.75 | 1.50 | 1.25 | 1.25 | 1.25 |
| Arlingclose Central Case | 3.50 | 4.00 | 4.25 | 4.25 | 4.25 | 4.25 | 4.00 | 3.75 | 3.50 | 3.25 | 3.25 | 3.25 | 3.25 |
| Downside risk | 0.00 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |

70. Arlingclose expects Bank Rate to rise further during the remainder of 2022/23 and to reach 4.25% by around the first quarter of the financial year 2023/24.

71. The Bank of England's (BoE) Monetary Policy Committee raised Bank Rate by 50bps to 3.5% in December 2022 as expected. There were signs that some Committee members believe that 3% is restrictive enough, however, a majority think further increases in Bank Rate might be required. Arlingclose expects Bank Rate to peak at 4.25%, with further 25bps rises February, March and May 2023.

72. The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until wage growth eases. Arlingclose expects rate cuts will start in the first half of 2024.

73. Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.

74. Gilt yields face pressures from hawkish US/euro zone central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high government borrowing will provide further underlying support for yields.

75. Background:

76. The influence of the mini budget on interest rates and gilt yields continues to wane following the more fiscally prudent approach shown by the latest incumbents of Downing Street.

77. Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten monetary policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.

78. The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power – recent data suggests the UK has passed peak inflation.

79. The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.

80. Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.

81. Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight, and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed’s resolve.

82. While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the European Central Banks seems to harbour (worryingly) few doubts about the short-term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

Purpose: For Decision

ISLE of WIGHT COUNCIL

# Committee report

| | |
|---|---|
| Committee | **AUDIT COMMITTEE** |
| Date | **20 MARCH 2023** |
| Title | **THE COUNCIL'S RISK PROFILE** |
| Report of | **CHIEF EXECUTIVE** |

## EXECUTIVE SUMMARY

1. The purpose of this report is to give the committee an opportunity to review the current position with regard to the council's strategic risks. The committee's terms of reference include the provision for consideration of "the effectiveness of the council's risk management arrangements".

## RECOMMENDATION

2. Option 1 – That the strategic risks of the council as set out in Appendix 1 of the report be approved.

## BACKGROUND

3. This is the final update of the Strategic Risk Register within the 2022/23 financial year reporting period.

4. A revision of the Corporate Plan 2021-25 was approved by Full Council on 17 November 2021 and the Strategic Risk Register was reviewed to ensure it remained aligned to the new plan. Of key importance has been improving the way mitigation is presented in the report. Whilst general commentary provided by risk owners is usually detailed, and relevant the mitigations need to have clear timescales and lines of responsibility to enable the Audit Committee to track their delivery and be assured that the risks are being sufficiently managed.

5. The application of the Risk Management Framework within the Isle of Wight Council has been subject to an internal audit revisit and has now been granted an outcome of "Assurance." The majority of actions identified as a result of the initial audit had been completed. All policies that underpin the annual governance statement have been refreshed and reviewed, except for the finance policies which are currently being addressed. A refresh of the council's Policy Framework is underway which will provide an action plan to support the maintenance of all council policies including their effective and regular review.

6. Regular meetings to discuss, update and monitor service risks are now being held across all service areas.

7. Improvements to the council's risk management system are being implemented to enhance the functionality and to improve the reporting mechanisms.

8. Strategic risks are referred to within the Quarterly Performance Management Reports (QPMR) that are presented to Cabinet. The presentation of the Quarter 1 report took place on 8 September 2022. The dates for subsequent reports to be reported to **cabinet** are shown below:
   - Quarter 2 -2022/23 (July 22 – September 22) – 10 November 2022
   - Quarter 3 -2022/23 (October 22 – December 22) – 9 February 2023
   - Quarter 4 – 2022/23 (January 22 – March 23) – 12 May 2023
   - Quarter 1 – 2023/24 (April 23 to June 23) – 14 September 2023

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

9. Strategic risks are those that have the potential to prevent the council from achieving its strategic priorities. Senior managers 'own' strategic risks according to their particular responsibilities. Strategic risks are brought to the attention of Cabinet in that they are linked to the corporate priorities of the council in the Quarterly Performance Management Report (QPMR). The presentation of the Q3 QPMR report took place on 9 February 2023.

Provision of affordable housing for Island Residents

10. Whilst this report has no direct impact on the provision of housing for Island Residents it will play an important part in reporting on the progress towards the delivery of key activities concerned with that outcome. The relevant mitigations around this theme can be viewed in Appendix 1 – Risk 13

Responding to climate change and enhancing the biosphere

11. Whilst this report has no direct impact on the progress toward the delivery of the Council's Climate and Environment Strategy or direct impact on the decision on the Island's designation as a UNESCO Biosphere, it will play an important part in reporting on the progress towards the delivery of key activities from within the Corporate Plan that are being delivered in line with these matters. The relevant mitigations around this theme can be viewed in Appendix 1 – Risk 13 and Risk 17.

Economic Recovery and Reducing Poverty

12. Progress towards Economic Recovery and the reduction of poverty is a key outcome for the Isle of Wight Council, and this is reflected in the Corporate Plan 2021-25. As such, Strategic Risks 1 and 2 as detailed in Appendix 1 relate to the ability of the Council to meet its statutory financial obligations as a Local Authority.

13. Strategic Risk 16 held in Appendix 1. reflects the work undertaken to understand the impact of cost-of-living pressures on both residents and service delivery. This new risk and the mitigations being delivered was shared with the Chair of Audit Committee and 16 February to allow full representation of the risks and support in place.

Impact on Young People and Future Generations

14. The decisions the Council makes now not only affect current residents, but may have long term impacts, both positive and negative, on young people and future generations. These impacts may not immediately be apparent or may not emerge for a number of years or decades. Impacts will be interrelated across the various domains of young people's lives from housing, employment or training, health and the environment.

15. The United Nations Conventions on the Rights of the Child (UNCRC) in 1989, in particular article 12, places a duty for children and young people to have an active voice in decision making on matters that affect them. We value the views of our young people. Incorporating coproduction and consultation with young people into our decision making process is a robust way of ensuring young people's views are taken into consideration. Participation workers experienced in coproduction can support engagement with the Youth Council, our Island children, and wider groups of young people to ensure the voice of young people is sought, heard, and acted upon on important matters that will affect them.

16. Appendix 1 - Risks 5 and 6 contain information relating to this priority.

Corporate Aims

17. The Strategic Risk Register is comprised of the key risks to the delivery of the IWC Corporate Plan as identified by the Isle of Wight Council's Corporate Management Team.

REPORTING METHODS AND RISK CHANGES

18. Updates are requested from all mitigation owners at the beginning of each month. These updates are then added to the risk register and included in this report.

19. All risk scoring is decided by Corporate Management Team which reviews the Strategic Risk Register each month as the Chief Executive Officer and the Directors have the statutory responsibility for managing the risks. The risk scoring matrix from which these scores are derived is shown in Appendix 2.

20. Risk owners have been requested to provide timescales for the mitigating actions associated with each risk where it is possible and appropriate to do so.

21. Updates made since the previous report are shown in italics in Appendix 1.

22. The strategic risk register was most recently circulated to Corporate Management Team (CMT) in February 2023 and all risk owners provided additional content and verified the current risk ratings.

23. Two new strategic risks have been identified and are presented at the end of Appendix 1.

24. Risk 16 The ability to manage the impact of the cost-of-living crisis (CoLC) on the council's activities and sustain service delivery:

25. An impact assessment has been undertaken by all services areas within the council to ensure a coordinated understanding and response to the cost-of-living crisis. This intelligence has been collated and forms the new strategic risk presented in Appendix1B. Individual service areas will manage the service risks relevant to their areas and the strategic risk ensures visibility at the corporate management team and audit committee.

26. Risk 17 Failure of coastal defences (where the policy is to “hold the line”) resulting in high risk to people, property, infrastructure and land, significant impact on communities and the council finances. The Isle of Wight Council has a vested responsibility for controlling coastal erosion under the Coast Protection Act 1949.

27. Routine maintenance of coastal defences is also regarded as a local function for districts in a two-tier authority, so as a unitary the council carries this responsibility as well.

28. In 2022 a full coastal defence asset condition survey was undertaken to establish the basis of future planned maintenance and urgent capital works/repairs. This survey concluded 16% of the council’s coastal defence assets were in a poor or very poor condition where there was a potentially significant risk of failure which could impact on communities, infrastructure, and the council’s finances. This risk was underlined by the failure of part of the Ventnor Eastern Cliffs Esplanade coastal defence in November 2022 and has been escalated to a strategic risk to ensure close monitoring at Corporate Management Team and Audit Committee.

CONSULTATION

29. The review of each strategic risk has been undertaken by senior managers according to their particular responsibilities. Members of the Corporate Management Team have reviewed the strategic risk register, provided additional input and verified the current risk ratings. Cabinet members are also given the opportunity to review risks as part of the QPMR.

FINANCIAL / BUDGET IMPLICATIONS

30. There are no direct financial implications of approving the Strategic Risk Register.

LEGAL IMPLICATIONS

31. The Accounts and Audit Regulations 2015 require that the council reviews its system of internal control including its risk management arrangements. This report is therefore concerned in part with improving the way the council manages risk and also in giving the committee the opportunity to play its part in overseeing risk management arrangements. These are important features in the council’s governance arrangements.

EQUALITY AND DIVERSITY

32. The council as a public body is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are age, disability, gender reassignment, marriage and

civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

33. It is considered that there are no direct equality and diversity implications of this report for any of the protected groups.

OPTIONS

34. Option 1: That the strategic risks of the council as set out in Appendix 1 of the report be approved.

35. Option 2: That the strategic risks of the council as set out in Appendix 1 of the report are not approved.

RISK MANAGEMENT

36. While this report is concerned with the subject of strategic risk itself, the key risk is that the council fails to recognise the importance of identifying, assessing, and managing strategic risk. The result would mean that risks are more likely to occur or that the council will fail to plan for their impact.

37. This risk is mitigated by a monthly review of the Strategic Risk Register by Corporate Management Team who also formally approve the register before it's submission to the IWC Audit Committee.

EVALUATION

38. Option 1 is recommended in that from the information provided in the report and appendices is based on the views of the IWC Corporate Management Team.

APPENDICES ATTACHED

39. Appendix 1: Full Strategic Risk Register

40. Appendix 2: IWC Risk Scoring Matrix

Contact Point: Debbie Downer – Strategic Manager – Organisational Intelligence,
☎ 821000 e-mail debbie.downer@iow.gov.uk

| | |
|---|---|
| WENDY PERERA<br>*Chief Executive* | COUNCILLOR CHRIS JARMAN<br>*Cabinet Member for Strategic Finance, Transformational Change and Corporate Resources* |

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<table>
<tr><td colspan="3">STRATEGIC RISK 1</td></tr>
<tr><td colspan="3">Lack of financial resource and the ability to deliver the council's in-year budget strategy<br><br>Assigned to: Director of Finance and Section 151 Officer</td></tr>
<tr><td>Inherent Score</td><td>Target Score</td><td>Current Score</td></tr>
<tr><td>16 RED</td><td>5 GREEN</td><td>5 GREEN</td></tr>
<tr><td colspan="3">Previous scores</td></tr>
<tr><td>Dec 22</td><td>Sep 22</td><td>Jul 22</td></tr>
<tr><td>5 GREEN</td><td>5 GREEN</td><td>9 AMBER</td></tr>
<tr><td>Mitigation</td><td>Update on Activity/Status</td><td>Pressure Points</td></tr>
<tr><td>Close monitoring of both Capital and Revenue spending (including income and savings targets)<br><br>Position reviewed at the end of each quarter.<br><br>Next review will be for Qtr. 4 (draft outturn) 2022-23<br><br>The Council maintains a Corporate Contingency for general and unidentified risk at circa. £3.5m per annum</td><td>Revenue Position<br>• As at quarter three the council is forecasting a net balanced budget. However, this includes significant pressures forecast in Adults and Children's Social Care, Leisure Centre income, and utility costs. This pressure is being offset by savings in Treasury Management costs, concessionary fares, and the use of contingencies.<br><br>Capital Position<br>• As at quarter three the council's is forecasting expenditure of £32.6m against a budget of £45.5m. There is net slippage in spending forecast at c. £12m from 2022/23 into future years (i.e., simply representing budgeted spending that is forecast not to take place in 2022/23 but will now fall into 2023/24). There is currently a forecast overspend of £0.4m.</td><td>Revenue Position:<br>• The main pressure areas are within Adults and Children's Social Care with net forecast overspend of £4.0m and £3.5m respectively but being offset by Treasury Management and contingencies<br><br>• Income from fees and charges mainly associated with Leisure Services are underachieving mainly because of legacy impact from the pandemic. The shortfall will be funded the Covid-19 contingency<br><br>• It should also be noted that there is a considerable risk to this forecast position as the financial year progresses and the impact of further inflationary pressures due to the current economic climate.<br><br>Capital Position:<br>• Potential overspends of c £0.4m have been identified<br>• Given the current economic conditions and delays caused to projects during the pandemic there is a significant risk that further cost pressures will become apparent and will be reported in future reports as the impact becomes clearer.</td></tr>
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| | | |
|---|---|---|
| **Review of Corporate Finance Risks**<br><br>**Position reviewed at the end of each quarter. Next review will be for January 2023** | • *The Charging of severely disabled people for Social Care (Norfolk decision) remains a key financial risk. Adult Social Care (ASC) undertake finance and charging assessments to determine individuals' eligibility to contribute towards the cost of their care and support. In line with other local authorities the council considers higher rate benefits when undertaking this calculation. This generates approx. £1.2 million per year of additional income for ASC.*<br><br>• *In a recent court decision, it was found that higher rate benefits should be disregarded, and calculations only based on standard or lower rates of benefits.* | • *Legal advice secured by the National Association of Financial Assessment Officers indicates that the judgement is flawed and advocated for continuing to levy charges in accordance with the regulations and local policy. This creates risk of potential legal challenge for all local authorities. We are seeking advice and recommendations from Legal Services as to the steps we need to take to reduce the risk and potential success of any challenge and are currently reviewing our Finance and Charging policies to afford maximum protection.* |

| **<u>STRATEGIC RISK 2</u>** | | |
|---|---|---|
| **Lack of financial resource and the ability to deliver the council's medium-term financial strategy**<br><br>**Assigned to: Director of Finance and Section 151 Officer** | | |
| **Inherent Score** | **Target Score** | **Current Score (Proposed)** |
| **16 RED** | **9 AMBER** | **9 AMBER** |
| **Previous scores** | | |
| **Dec 22** | **Sep 22** | **Jul 22** |
| **9 AMBER** | **9 AMBER** | **9 AMBER** |
| **Mitigation** | **Update on Activity/Status** | **Pressure Points** |
| **A full revision of the budget and future forecast and resulting savings requirements is presented to Full Council each** February.<br><br>**Due date 28/2/23** | • *The process for setting the budget for 2022-23 was completed and approved by Full Council in February 2022*<br><br>• *Full Council approved an indicative savings requirement of £2m for the financial year 2023-24. The process to identify savings and prepare the budget for 2023-24 is in progress*<br><br>• *The budget and associated indicative savings proposals will be presented to Full Council for approval in February 2023* | • *Provisional funding levels from Government are not published until December each year and confirmed in January*<br><br>• *Savings requirements are currently estimated at £2m per annum for the next three financial years (2023-24, 2024-25, 2025-26)*<br><br>• *Service Pressures/Demographic. Cost pressures including Inflation can be significant. The key pressures generally relate to Social Care (Adults & Children's) and inflation in particular utility costs and wage costs (including costs passed on from contractors/suppliers)* |

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| | | • *Reserves need to be maintained at a level that provides sufficient financial resilience to enable the delivery of the Medium-Term Financial Strategy*<br><br>• *Future Local Government funding system – there is still considerable uncertainty relating to planned major changes to the funding formula (Fair Funding Review) and the business rates system, therefore future funding levels remain very uncertain*<br><br>• *Island Deal – £1m was awarded for 2022-23 to recognise the additional costs of delivering services on an Island. Future allocations for 2023-24 are still being discussed with Government in the absence of the delivery of the Fair Funding Review*<br><br>• *Capital Programme Resources – grant funding is very constrained. There is a reliance on one-off contributions from revenue. Borrowing must be demonstrated to be affordable with a sufficient revenue stream to pay the debt costs. PWLB Borrowing approval is also restricted by regulation and the three-year capital programme is prohibited from including schemes that are primarily for a commercial yield.* |
| **Delivery of:**<br><br>**Income generation**<br><br>**Efficiencies**<br><br>**Services reductions and early identification of unavoidable cost pressures/unachievable income targets to allow effective mitigation planning** | • *Commercialisation Board recently set up – to evaluate and progress full cost recovery for chargeable services, income generation and service efficiencies*<br><br>• *Regeneration Programme Boards are in operation and aim to deliver an economic benefit to the council including an improved council tax and business rates base*<br><br>• *The budget process includes a series of meetings with Directors and* | • *Ability to fund new initiatives that require an initial subsidy. See note above regarding the conditions for borrowing.*<br><br>• *The Transformation Fund is the main source of one-off investment required for new income generating activity. This is a limited fund which must be prioritised to schemes that deliver the best outcome. Any top-ups required to the fund will be considered as part of the* |

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| **Review - ongoing** | *Cabinet to explore unavoidable cost pressures & undelivered savings, opportunities for income generation, efficiencies & opportunities for transformation bids* | *budget setting process and is subject to affordability.* |
| **Maintain ultimate Council Tax collection rate at 98.3% & minimise the opportunity for fraud**<br><br>**Review date – 31/03/23** | • *Creation of a centralised debt team with enhanced staffing levels to ensure that the payment of debt is maximised and to signpost residents to appropriate support and guidance*<br><br>• *Processes in place to review discounts and exemptions to verify reductions being claimed*<br><br>• *A robust enforcement approach is in place to maximise collection of council tax, sundry debt, and business rates. To also assist customers to proactively manage debt before recovery becomes a requirement*<br><br>• *Working closely with Portsmouth Fraud team to prosecute those who are accessing the public purse fraudulently* | • *Continued increase in the number of residents contacting the council relating payment concerns due to cost of living increases*<br><br>• *Ability to recruit to fixed term roles to create additional resource for the administration of government initiatives to assist residents with financial support*<br><br>• *Potential increase in caseload for Local Council Tax Support, reducing Council Tax income levels* |

| **STRATEGIC RISK 3** | | |
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| **Insufficient staffing capacity and skills**<br><br>**Assigned to: Director of Corporate Services** | | |
| **Inherent Score** | **Target Score** | **Current Score (Proposed)** |
| **16 RED** | **9 AMBER** | **12 RED** |
| **Previous scores** | | |
| **Dec 22** | **Sep 22** | **Jul 22** |
| **10 RED** | **10 RED** | **10 RED** |
| **Mitigation** | **Update on Activity/Status** | **Pressure Points** |
| **Monitoring Staff Capacity**<br><br>**Review Date 31/03/23** | • On-going legacy issues emerging as a result of COVID-19 are resulting in increased demand for support being received from residents. *This is further exacerbated with the increase in demand on services because of the cost-of-living crisis*<br>• Continued effort is being given to developing agile working practices, taking learning from the pandemic into consideration as we move towards a | • The wellbeing of our staff remains a concern and continued efforts are being made to provide access to support and response to any issues of concern.<br>• Staff absence levels continue to remain stable but are continually monitored at organisational and directorate level |

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| | new model of hybrid working. Gradually services are now establishing their working models combining agile and office-based working<br>• To address sickness levels staff are being signposted to support services such as Remploy and our internal Mental Health Champions network.<br>• All managers are being encouraged to complete the Attendance Management training, this is being monitored and escalated to CMT quarterly. | • *Covid absence levels continue to reduce, therefore reducing staffing pressures on service areas.*<br>• *Due to the recent cost pressures, an organisational redesign may be required to reduce costs and achieve a structural balance. This could result in reductions in non-statutory activity, rationing of the council's priorities set out in the corporate plan, and a redesign that takes place during 2023/24 for implementation from October 2023.* |
| **Delivery of recruitment and retention strategy and action plan**<br><br>**Due date 31/03/23** | • On-line training resources have been developed to support recruiting managers that can be accessed as and when it is required - these remain under review for further improvements to be identified.<br>• The project team have progressed several key elements of the strategy including an<br>o Improved Induction process for new starters that enables feedback regarding the overall recruitment and selection process<br>o Revise existing and transfer process to better understand the reasons for staff leaving their posts<br>o Improved Intranet resources for recruiting managers that make the recruitment process clearer and provide them with additional supporting documentation<br>• The pay benchmarking tool has been rolled out to key managers. Service areas are now able to benchmark against other similar employers to assess salaries and use that information to assess whether market supplements are necessary. | • Resourcing has been identified as a key issue for the delivery of the strategy with competing workload priorities and lack of funding placing pressure on the ability to deliver the desired outcomes of the project.<br>• A growth bid has been submitted to finance colleagues for considerations as part of the budget setting exercise as no further improvements can be made to processes without the support of new software. |
| **Regular monitoring, analysis, and review of organisational health indicators**<br><br>**Review date 31/03/23** | • The reporting dashboard has been refreshed to allow focus to be given to month-by-month changes and comparison with previous year periods to allow for greater scrutiny of issues of concern.<br>• A refreshed attendance management strategy and action plan has now been agreed is being delivered. *This is reviewed and updated monthly.*<br>• Annual staff survey has taken place with initial analysis presented to corporate management team in June 2022. Feedback has also been shared | . |

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| | with line managers at the September Managers Big Conversation. *The information was also be shared at Joint Consultative Meeting (JCM)in November and with Directors as part of the People Management update paper on 6 December 2022. A further review paper will be shared 21st March 2023.*<br>• Staff carer's network group launched to enable staff with caring responsibilities to network and gain support from one another. | |
| **Workforce planning**<br><br>**A workforce plan is being developed across the Council to identify key roles in service areas and the skills needed for the future so services can plan training and enable succession planning.**<br><br>**Review Date 31/03/23** | • Workforce Planning Workshops have commenced and workforce learning and development plans are being collated from the information gathered<br>• Workforce planning requirements were included as a key section of the directorate plans produced to support the Corporate Plan<br>• An update was provided to senior managers in August which aided discussions on succession planning and building service resilience. This included the hard to recruit positions and future planning for the ageing workforce. | • The workforce planning workshops require a lot of work in directorate senior teams in the first instance but once completed these plans can be monitored and updated more easily.<br>• *Staff wishing to take advantage of the potential to reduce their hours / take voluntary redundancy or flexible retirement, will have a negative impact on available succession planning options.*<br>• Formal action plan to address key workforce issues to be presented to CMT in December 2022 when all workshops have been undertaken with all directorates. *Public Health session took place on 23/11/2022. Two Children's Services sessions have been undertaken in December and January. An additional session with Neighbourhoods Directorate has also been completed.* |

| STRATEGIC RISK 4 | | |
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| **A change in organisational culture fails to keep a pace with the speed of organisational change, negatively impacting on the delivery of the required transformation to deliver the corporate plan**<br><br>**Assigned to: Director of Corporate Services** | | |
| **Inherent Score** | **Target Score** | **Current Score (proposed)** |
| **16 RED** | **6 GREEN** | **8 MEDIUM** |
| **Previous scores** | | |
| **Dec 22** | **Sep 22** | **Jul 22** |
| **6 GREEN** | **6 GREEN** | **6 GREEN** |
| **Mitigation** | **Update on Activity/Status** | **Pressure Points** |
| **Leadership and management development**<br><br>**Review Date 31/03/23** | • *Review has taken place with the CX and leadership and management conferences will begin again from March 2023 with a renewed focus on bringing leaders and managers together to discuss the Council's key priorities and how we are going to achieve the outcomes of the corporate plan collectively as one organisation.*<br>• The 'Developing Leaders Programme' launched in July 2022 runs until May 2023 – there are 21 participants from across the Council taking part. *This group of developing leaders will be encouraged to take part in organisational development work across the Council within their own teams once the formal programme has ended.*<br>• The apprenticeship levy is being used to support 37 members of staff studying a leadership and management apprenticeship programmes.<br>• ASC & HN have 28 members of staff on management pathway apprenticeships with 1 in Children's Services, 4 in corporate services and 4 in Strategy. | • Participants reflected on the difficulties in being able to give themselves time to learn and reflect. |
| **Workforce development programmes/**<br><br>**Initiatives** | • *Face to face learning where appropriate is taking place again from Westridge Learning Centre.*<br>• *ASCHN staff can have 3 hours per month as protected 'time to learn.' This is being monitored and any barriers identified are being discussed.* | • A substantial piece of work is to be undertaken this year looking at the future of learning which aims to build staff/manager responsibility for their own learning and that of their teams. This will support directorate workforce plans by identifying |

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| **Review Date 31/03/23** | • *Updated guidance is being developed about apprenticeships with a new learning module available to all staff on the Learning Hub to explain the process clearly.*<br>• *Leisure and parking services have reviewed their staff access and leisure are currently trialling tablets for frontline staff to be able to access their mandatory training whilst at work.* | career pathways and essential learning to be undertaken.<br>• The 'Focus on the Front' project is specifically focussed on reviewing frontline staff access to essential learning by reviewing their access to IT equipment, their log ins and ensuring that they have time to learn what is essential for their roles. |
| **Delivery of the council's BIG Action Plan**<br><br>**Progress against the Big Action Plan which is now integral to the council's organisational development strategy is included in the Strategic Programme Report that is reviewed bi-monthly by Corporate Management Team.**<br><br>**Review Date 31/03/23** | • The Strategic Manager for Workforce and Organisational Development is leading on the People and Organisational Development Strategy and its BIG action plan. The plan has recently also been updated with the outcomes of the annual staff survey. The new themes are Great People, Great Leadership, Great Organisation. Quarterly reports on progress are being provided to the Corporate Management Team. | • The ambitious agenda set within the BIG Action Plan places pressure on resources as different workstreams often require access to the same support resources in areas such as ICT, HR, Organisational Intelligence, Procurement and Property Services. |
| **Maintaining ICT Networks and systems to facilitate large scale agile working**<br><br>**Review Date 31/03/23** | • Business continuity plans continue to be reviewed and monitored to ensure the Information and Communications Technology (ICT) infrastructure, networks and systems remain operational.<br>• The agile change team remain in place to help staff and teams in the use and maximisation of the potential of available technology<br>• Where there are competing demands for ICT resources priority is given based on the importance of the activity towards delivery of key Corporate Plan outcomes | • With more staff returning to the workplace on a regular basis there is an increase in requests for adding replacement equipment to office workspaces where the original supplies remain in use at home to enable flexible working to continue.<br>• *There is only limited stock available and no additional budget to increase equipment supplies. Departments are being asked to review the working patterns of staff to determine essential equipment requirements to avoid budget pressures emerging.*<br>• *Capital Bids covering the next 5 years have been submitted, failure to invest will return the council to a position where staff are using outdated and slow equipment, our greatest cost base (staff) will not potentially be working at their most efficient.* |

<table>
<tr><td colspan="3">STRATEGIC RISK 5</td></tr>
<tr><td colspan="3">Failure to improve educational attainment<br><br>Assigned to: Director of Children’s Services</td></tr>
<tr><th>Inherent score</th><th>Target score</th><th>Current score (proposed)</th></tr>
<tr><td>16 RED</td><td>6 GREEN</td><td>10 AMBER</td></tr>
<tr><td colspan="3">Previous Scores</td></tr>
<tr><th>Dec 22</th><th>Sep 22</th><th>Jul 22</th></tr>
<tr><td>10 AMBER</td><td>10 AMBER</td><td>10 AMBER</td></tr>
<tr><th>Mitigation</th><th>Update on Activity/Status</th><th>Pressure Points</th></tr>
<tr><td>Building on the improvements in standards<br><br>Review Date 31/03/23</td><td><ul><li>Pupils took examinations in summer 2022 for the first time since 2019. The results at this stage are provisional but the school improvement has forensically analysed them by individual school, subject and by specific cohorts of children.</li><li>Both the targeted and professional development offers of school improvement activities have been updated to reflect the changed needs of schools and their leaders as they adapt to the academic, social, and pastoral needs of the children which have in many cases changed over the pandemic.</li><li>The school improvement team has continued to work with schools preparing for inspection under the new Ofsted framework that was implemented in September 2019. Due to the pandemic, few schools have been inspected therefore the impact of the new framework remains a live risk.</li><li>An analysis of the GCSE results and attendance demonstrates the correlation between good attendance and attainment. For those children with regular attendance their GCSE grades were above the national average whereas those that were persistently absent (10% absent) their grades were 3 grades lower on average than the rest of their peers. Promoting good attendance is therefore a key strand of our school improvement work.</li></ul></td><td><ul><li>Analysis of the data shows that the gaps between the attainment of the whole cohort and those experiencing vulnerabilities such as those children open to social care, those on free school meals and those with special educational needs have widened. This has happened both locally on the Island and nationally.</li></ul></td></tr>
<tr><td>Ensuring schools are good (as rated by Ofsted) for all children<br><br>Review Date 31/03/23</td><td><ul><li>76 percent of IW schools are currently rated good or outstanding. The pandemic had a variable impact on schools and has affected attainment and attendance. In those circumstances the implementation of a relatively new Ofsted framework may lead to some variability.</li></ul></td><td>Some schools have had very tough times over COVID; their improvement trajectories have slowed, and they are now being fully supported to get back on track with the rapid improvements needed by the school improvement team. This adds pressure to the Ofsted</td></tr>
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| | | judgements improving as swiftly as would have been the case previously. |
| **Leading a cohesive system for children based on effective partnership working**<br><br>**Review Date 31/03/23** | • Continued development of strong relationships and synergies between the range of departments and agencies that work with children including social care, health, and the Special Educational Needs (SEN) service.<br>• Continue the positive work on transition that began between primary and secondary schools during the pandemic, and between schools and post-16 providers. | None currently. |

| **STRATEGIC RISK 6** | | |
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| **Failure to identify and effectively manage situations where vulnerable children are subject to abuse**<br><br>**Assigned to: Director of Children's Services** | | |
| **Inherent score** | **Target score** | **Current score (Proposed)** |
| **16 RED** | **5 GREEN** | **9 AMBER** |
| **Previous scores** | | |
| **Dec 22** | **Sep 22** | **Jul 22** |
| **7 AMBER** | **7 AMBER** | **7 AMBER** |

| **Mitigation** | **Update on Activity/Status** | **Pressure Points** |
|---|---|---|
| **COVID-19 Response**<br><br>**Review Date 31/03/23** | • *Service fully operational though demand has increased. Managers monitor attendance.*<br>• *Family Time (Contact) between looked after children and their parents continues Plans are in place to bring the family time service in house following notice being given on the contract by the provider.*<br>• *Business Continuity Plan includes additional actions developed to respond should power cuts impact on service delivery.*<br>• *The Isle of Wight Council applied for and has received additional investment from the DfE to enhance our local offer to support more families impacted by the rise in the cost of living. The Council was also successful in being recognised as a national trailblazer for* | • *The recruitment of both permanent and agency social workers remains a challenge locally and nationally. Children's social care has taken a number of steps to enhance our offer to recruit and retain. These include a review of the market supplement, the appointment of additional Family Practitioners and the creation of a senior social worker role for career progression.*<br>• *The recruitment of in-house foster carers remains a pressure. We need a range of carers to match to meet the needs of children.*<br>• *The lack of private rented accommodation and social housing has meant young people who are ready to move on from supported accommodation are unable to do so.* |

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| | *Family Hubs securing further investment from Government.* | *This has become a financial pressure and prevents young people who need to move into supported accommodation from foster care or residential care from doing so.* |
| **Corporate Parenting Board**<br><br>**Corporate parenting board meetings taking place quarterly.**<br><br>**Review Date 31/03/23** | • Corporate parenting strategy & Action plan agreed by Board in March 2020, *reviewed annually.*<br>• *Have Your Say Week activities during school half terms offer opportunities for Councillors to meet and talk to children and families open to children's social care.* | • *The Corporate Parenting Board would benefit from more Councillors attending and participating. This would ensure that portfolio holders can understand how council services can work to improve the lives of children in care and care leavers.* |
| **Multi-agency integrated commissioning board**<br><br>**Review Date 31/03/23** | • Pathways to Independent Adulthood supported accommodation offer fully operational.<br>• Placement Commissioning combined with Hampshire to enhance capacity across both Local Authorities.<br>• *Isle of Wight is now part of the integrated commissioning approach with Hampshire to align with developments around the new Integrated Care System and Partnership Board.* | • *The new Integrated Care System and Partnership Board offers commissioning opportunities across Hampshire, Isle of Wight, Portsmouth, and Southampton. Plans include the provision of perinatal mental health services delivered through the Family Hubs locally.* |
| **Quarterly performance reports to Scrutiny Committee**<br><br>**Review Date 31/03/23** | • Performance reports are viewed regularly by the Policy and Scrutiny Committee for Children's Services, Education and Skills. Meetings held on 9 June 2022 and 1 September 2022 with the next meetings scheduled for *December 2022 and 2 March and 15 June 2023.*<br>• *Daily/weekly and monthly performance management data is reviewed by all managers to maintain oversight over practice, to maintain performance and identify and address areas for improvement.* | • *The sustained Increase in demand (referrals/assessments) puts pressure on the service to maintain high levels of performance. The Isle of Wight continues to experience higher rates of demand compared to other areas in the South East and statistical neighbours, however good performance is maintained such as completion of assessments within timescales. Increased investment will ensure an increase in capacity to meet these increased and high rates of demand.* |
| **Caseloads continue to be scrutinised by senior management on a weekly basis and fortnightly by the Director of Childrens Services and Deputy Director.**<br><br>**It is expected that demand will** | • *In response to the national review of children's social care, the Isle of Wight has been swift to recruit eight Family Practitioners, a new role within our Children Assessment and Safeguarding Teams to support children in need and provide additional capacity.*<br>• Successful bid to Department of Education has secured significant additional investment in our Family Hubs to respond to meeting the needs of more families impacted by the pandemic *and the rising cost of living.* | • The average caseload has increased (to 26 from 21) due to increased demand. Additional investment in social worker capacity has been secured to support the increased demand due to impact of the pandemic and rise in the cost of living. However, there is a national issue on the availability of social workers and agency social workers meaning challenges recruiting to vacancies remains a pressure. |

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| **continue at a higher level than previously now reset as a new normal.**<br><br>**Review Date 31/03/23** | | |
| **Quality assurance framework (monthly case audits concentrating on quality of practice)**<br><br>**Review Date 31/03/23** | • Monthly meetings take place to review audits and actions and quality of practice. The senior management team also undertake an audit of audits on a monthly basis to quality assure the auditing process.<br>• *An Early Help audit tool has been developed to provide management oversight on the quality of our early help arrangements.*<br>• *Our audits include feedback from families on the quality of social work practice and what we can do to improve our service delivery.*<br>• *A recent audit was on re-referrals to understand if there were any themes. The main theme one being families experienced complex and multiple challenges meaning they were often re-referred. Audits inform our Quality Improvement Plan, our service-wide plan to improve our social work practice and to inform our annual self-assessment shared with Ofsted at our annual conversation with them.* | |
| **Annual self-assessment and annual conversation between Director and Ofsted**<br><br>**Ofsted undertook a focussed inspection in July 2021 of the Isle of With Children's Social Care Service. The letter of findings was published early September 2021.** [50168714 (ofsted.gov.uk).](50168714 (ofsted.gov.uk).) | • A new Quality Improvement Plan (QUIP) was developed and updated in January and July to show progress. The self- assessment is being updated covering 2022 ahead of the annual conversation the Director and senior managers had with Ofsted in early 2023<br>• *The QUIP was reviewed and updated in December 2022.*<br>• *The self-assessment for 2022 has been completed.*<br>• *The annual conversation has been confirmed for 7th March 2023.* | |

| Review Date 31/03/23 | | |
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| STRATEGIC RISK 7 | | |
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| **Failure to recruit acceptable quality of professional practice across Adult Social Care (ASC) and Housing Needs**<br><br>**Assigned to: Director of Adult Social Care** | | |
| **Inherent score** | **Target score** | **Current score (proposed)** |
| **14 RED** | **6 GREEN** | **8 AMBER** |
| **Previous scores** | | |
| **Dec 22** | **Sep 22** | **Jul 22** |
| **8 AMBER** | **8 AMBER** | **8 AMBER** |

| Mitigation | Update on Activity/Status | Pressure Points |
|---|---|---|
| **Pride in Practice – growing our own social work workforce**<br><br>**COMPLETE** | • The Pride in Practice Strategy continues to deliver with ongoing activity to ensure we are growing our own social workers. | |
| **Addressing especially hard to recruit roles**<br><br>**Robust recruitment plan now in place to support recruitment to 'hard to fill' roles.**<br><br>**Review Date 31/03/23** | • Business case for Market Supplements, in line with council policy, to be applied to 7 specific roles which have now been advertised without success on multiple occasions now in development. | • Against a backdrop of a national skills shortage in this area, the service still has vacancies in this specialist role but is continuing to advertise and promote the roles whilst also training existing staff to undertake these duties. |
| **ASC recruitment and retention**<br><br>**Review Date 31/03/23** | • Vacancy monitoring is reviewed monthly.<br>• The ASCHN workforce plan has been completed and is now being implemented supporting with all recruitment and retention activity.<br>• Pay benchmarking information has been provided by HR to inform recruitment strategies | • As above. The IWC is not only in competition with other local authorities for but also with other industries where pay rates have increased post pandemic (e.g., hospitality). |
| **ASC Learning and Development Plan**<br><br>**COMPLETE** | • In place and providing support to staff. | |
| **New person-centred, strengths-based assessment forms**<br><br>**COMPLETE** | • Improvement plans have been developed and implemented across the department following analysis and scrutiny of audit findings. This is now business as usual. | |

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| **Maintain staffing levels during COVID-19 response**<br><br>**COMPLETE** | • Pandemic response largely concluded. Staffing levels and activity reverted to 'business as usual' | |
| **Agile working**<br><br>**COMPLETE** | • All staff in ASC continue to work in an agile way, working from where they need to be. | |

| **STRATEGIC RISK 8** | | | | |
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| **Failure to identify and effectively manage situations where vulnerable adults are subject to abuse**<br><br>**Assigned to: Director of Adult Social Care and Assistant Director of Operations** | | | | |
| **Inherent score** | | **Target score** | | **Current score (proposed)** |
| **16 RED** | | **6 GREEN** | | **8 AMBER** |
| **Previous scores** | | | | |
| **Dec 22** | | **Sep 22** | | **Jul 22** |
| **11 AMBER** | | **10 AMBER** | | **10 AMBER** |
| **Mitigation** | **Update on Activity/Status** | | | **Pressure Points** |
| **Protecting Vulnerable Adults**<br><br>**Review Date 31/03/23** | • Review of IW Independent Living Strategy – (to be completed in January 2023)<br>• Focus on improving mental health and wellbeing is incorporated into all activities across Adult Social Care (including strategies, commissioning decisions and directly provided services)<br>• The review and refresh of the Carers Strategy continues to progress.<br>• Support for informal and family carers remains in place through the contract with Carers IW<br>• Activity underway to reduce the number of outstanding care support reviews by 50% by January 2023 | | | • Safeguarding continues to be a key area of focus with the number of referrals in each month continuing to increase. *Work continues to review safeguarding activity and levels.* |
| **ASC Programme Board**<br><br>**COMPLETE** | • All ASC projects are reviewed monthly by the ASC Programme Board with any exceptions being escalated to the ASC Service Board. Highlight report reflects the corporate standard. | | | |
| **'Deprivation of Liberty Safeguards' (DoLS) backlog clearance programme**<br><br>**Review Date 31/03/23** | • The number of applications awaiting assessment has fallen steadily over the last 12 months *because of targeted activity and effective triage. 255 applications are currently awaiting assessment compared with 509 a year ago.* | | | |
| **Mental Health Action Plan**<br><br>**Review Date 31/03/23** | • An action plan has been produced in response to the independent review of mental health social work practice – its development and delivery continues to be on target. | | | |

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| **Safeguarding Action Plan**<br><br>**COMPLETE** | • Review of the practice guidance is complete.<br>• Making Safeguarding Personal (MSP) toolkit for ASC practitioners in place. | |
| **Learning Disability (LD) Homes Service improvement plans**<br><br>**COMPLETE** | • We retain 2 residential care homes supporting people with learning disabilities and Westminster House which is a respite centre. All these services are rated as Good by Care Quality Commission (CQC).<br>• Each service now has a bespoke Service Improvement Plan which is being regularly and routinely monitored. | |
| **Centralisation of outreach teams**<br><br>**COMPLETE** | • The service is fully operational. | |

| **STRATEGIC RISK 9**<br><br>**Failure to secure the required outcomes from the integration of adult social care and health**<br><br>**Assigned to: Director of Adult Social Care** | | |
|---|---|---|
| **Inherent score** | **Target score** | **Current score (proposed)** |
| **16 RED** | **5 GREEN** | **5 GREEN** |
| **Previous scores** | | |
| **Dec 22** | **Sep 22** | **Jul 22** |
| **10 AMBER** | **10 AMBER** | **10 AMBER** |

| **Mitigation** | **Update on Activity/Status** | **Pressure Points** |
|---|---|---|
| **COVID-19 Response**<br><br>**COMPLETE** | • The national scheme to provide additional funding to Health partners to support with Hospital Discharge (HDS1 and HDS2) will now continue to 30/06/2022 | • We have seen an increase in financial liability for care and support because of the Discharge to Assess policy implementation and continue to review monthly the impact of these arrangement to mitigate so far as is possible long-term effect. |
| **ASC Programme Board**<br><br>**COMPLETE** | • All ASC projects are reviewed monthly by the ASC Programme Board with any exceptions being escalated to the ASC Service Board. Highlight report reflects the corporate standard. | |
| **Transformation programme and operational integration**<br><br>**Review Date 31/03/23** | • The Better Care Fund for 2022-23 Has been agreed and submitted<br>• The full review of the Regaining Independence Service is underway with a focus on greater levels of rehabilitation and | |

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| | reablement services being provided in peoples own homes<br>• IWC commissioned external review of Community Equipment Service is underway. | |
| **Responsiveness to hospital escalations**<br><br>**Review Date 31/03/23** | • The System Resilience Board, takes ownership of the programmes of work arising from escalation and monitors the delivery of actions in a timely way. | |

| **STRATEGIC RISK 10** | | |
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| **Independent Social Care Sector Sustainability (Care Homes and Home Care)**<br><br>**Assigned to: Director of Adult Social Care** | | |
| **Inherent score** | **Target score** | **Current score (proposed)** |
| **16 RED** | **6 GREEN** | **12 RED** |
| **Previous scores** | | |
| **Dec 22** | **Sep 22** | **Jul 22** |
| **12 RED** | **12 RED** | **12 RED** |

| **Mitigation** | **Update on Activity/Status** | **Pressure Points** |
|---|---|---|
| **IW Market Position Statement**<br><br>Due date 31/03/23 | • Fair cost of care exercise and Market Sustainability Plan submitted on time.<br>• Engagement to develop final version of the MSP commenced in November 2022 | • Independent provider fragility<br>• Lack of central government funding<br>• Affordability of care based on increased levels of dependency in the community |
| **Occupancy Levels**<br><br>**COMPLETE** | • Daily monitoring of the occupancy levels across all CQC registered Care Homes continues, through the National Capacity Tracker. We have now developed a weekly ratification process with providers to ensure that vacancy data is accurate. – This process is now considered as Business as Usual | |
| **Levels of Fees**<br><br>**Due date *31/03/23*** | • Fair Cost of Care exercise and Market Sustainability Plan submitted to DHSC on 14/10/2022 as required *and published on 01/02/2023.*<br>• *This process has informed fee setting for 2023/2024.* | • Figures submitted by local providers were aspirational in terms of what they felt they/their staff were worth which was not necessarily reflective of actual cost pressures.<br>• The relatively low rate of returns to the fair cost of care exercise leads to |

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| | | questions over the absolute validity of this exercise and whether it does truly reflect the cost of care on the Isle of Wight.<br>• Current recruitment issues on the island mean that many of our providers are staffed well below the capacity needed to meet demand thereby not reflecting a more realistic cost of care provision. |
| **Workforce pressures**<br><br>**Review Date 31/03/23** | • The lack of local workforce in the delivery of social care activity has been escalated as an area of concern to both national ADASS and the LGA.<br>• *Local providers have reported that recruitment is less challenging over the past few months but are nervous about the pressure linked to both recruitment and retention for the summer tourist period* | • We continue to monitor the situation and to work with providers around business continuity plans and safe staffing levels. |
| **Market Capacity – Homecare**<br><br>**Review Date 31/03/23** | • *Capacity is improving due to increased recruitment success however the fragility of the workforce continues to be monitored with robust business continuity plans in place to provide emergency care and support if necessary.* | |
| **Capacity Tracker**<br><br>**COMPLETE** | • The National Capacity tracker is now well established and is considered to be Business as Usual | |

| **STRATEGIC RISK 11** | | |
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| **Failure of the Highways PFI contract resulting in significant financial and operational disruption for the council and its residents**<br><br>**Assigned to: Director of Neighbourhoods** | | |
| **Inherent score** | **Target score** | **Current score (proposed)** |
| **16 RED** | **5 GREEN** | **9 AMBER** |
| **Previous scores** | | |
| **Dec 22** | **Sep 22** | **Jul 22** |
| **7 AMBER** | **8 AMBER** | **8 AMBER** |

| **Mitigation** | **Update on Activity/Status** | **Pressure Points** |
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| **PFI – Establish and deliver available savings**<br><br>**Review Date 31/03/23** | • Most of the requirements for the Core Investment Period (CIP) have been satisfied and the contractor is now moving into the Routine Maintenance and Life Cycle Investment period for the remainder of the contract.<br>• The CIP Milestone 14 programme is progressing as planned and to schedule for completion by 31 March 2023.<br>• The majority of the first two phases of the programme of contract savings have been agreed. Island Roads have forward funded the savings amounts in the budget to meet the £1.5 m pa savings target. | • *Achieving savings from Schedule 32 schemes, in the region of £200k pa, is currently behind schedule due to resourcing and ICT issues within Ringway Island Roads (RIR known as Opco). However, the risk to IWC has been mitigated by RIR guaranteeing the £1.5M saving on the Unitary Charge until the savings have been achieved.* |
| **PFI - Successfully resolve anomalies in the contract specification**<br><br>**Review Date 31/03/23** | • Ongoing discussions are taking place to resolve other outstanding contract issues by end March 2023. | • *Additional contractual issues are being identified, where RIR are reinterpreting the Contract to suggest RIR require additional payment to undertake contractual requirements. This is likely to be a direct result of the successful IWC resolution of recent disputes that have cost RIR a significant amount of money. IWC are raising these issues with Island Roads Services Ltd (IRSL known as SPV) to seek resolution.* |

| **STRATEGIC RISK 12** | | |
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| **Failure of the Waste contract resulting in significant financial and operational disruption for the council and its residents**<br><br>**Assigned to: Director of Neighbourhoods** | | |
| **Inherent score** | **Target score** | **Current score (proposed)** |
| **16 RED** | **5 GREEN** | **8 AMBER** |
| **Previous scores** | | |
| **Dec 22** | **Sep 22** | **Jul 22** |
| **8 AMBER** | **8 AMBER** | **8 AMBER** |

| **Mitigation** | **Update on Activity/Status** | **Pressure Points** |
|---|---|---|
| **Regular monitoring of performance of the contract**<br><br>**Review Date 31/03/23** | • Recycling rates and service satisfaction levels remain high.<br>• Performance remains good with almost 100 percent of municipal waste now being diverted from landfill and over 58 percent of household waste being recycled or composted. | • *Contract now moved to Talia Waste Management UK under Ferrovial SE reducing the risk inherent with the sale of Amey Plc UK.* |

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| **Ensure the delivery of Key Facilities through robust contract management**<br><br>**Due Date June 2023** | • *The Energy from Waste plant is currently operating and generating power as the commission tests are worked through. The final test certification is expected to be achieved in the summer 2023.*<br>• *The facility is working through the stages of hot commissioning. The testing required of the contract is stringent to ensure that the product delivered built to and working at the standard required by the contract. During this testing the plant is slowly brought through stages to work toward full capacity. As is expected in this type of engineering project minor faults are picked up along the way and the plant is stopped to repair.*<br>• All and any costs incurred by the delay will be met by the service provider.<br>• All construction delay and associated additional costs of treating waste is entirely at the financial risk of the service provider and does not affect the diversion of waste from landfill or the recycle rates being achieved on the island. | • Construction risk and cost of residual waste above agreed contract rates sits with **Ferrovial SE.**<br>• The council has maintained the service charge step down from August 2018 when the plant was originally due to be completed (prior Energos failure) meaning that *Ferrovial SE* must cover the treatment cost gap for sending waste to a mainland Energy Recovery Facility (ERF).<br>• There is a risk further faults may occur and lead to plant shutdown and more delays. This is a risk of the hot commissioning process. |

| **STRATEGIC RISK 13** | | |
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| **Achieving the vision for the Island**<br><br>**Assigned to: Chief Executive** | | |
| **Inherent score** | **Target score** | **Current score (proposed)** |
| **14 RED** | **6 GREEN** | **12 RED** |
| **Previous scores** | | |
| **Dec 22** | **Sep 22** | **Jul 22** |
| **12 RED** | **12 RED** | **12 RED** |
| **Mitigation** | **Update on Activity/Status** | **Pressure Points** |
| **Isle of Wight Corporate Plan 2021-25**<br><br>**Review Date 31/03/23** | • Progress against Corporate Plan is reporting in the Quarterly Performance Management Report to Cabinet | There are pressures related to strategic capacity and within some of the regeneration programme that will impact on some areas of delivery against the corporate plan. |
| **Quarterly Performance Management** | • Regular reporting of finance and performance set against the corporate plan activities and metrics is made to the | |

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| **Report (QPMR) updates**<br><br>**Review Date 31/03/23** | Cabinet and various committees with a scrutiny function.<br>• The new Corporate Plan is aligned to the council's vision for the Island and all the council's key activities and performance metrics derive from it.<br>• Directorate Plans have also been produced and provide a framework for team and individual performance management | |
| **Strategic capacity and interventions**<br><br>**Review Date 31/03/23** | • Additional capacity in the senior management team was previously secured and is being used to address gaps in strategy and policy issues which will align to the corporate plan.<br>• Key current themes are affordable housing, biosphere, and net zero; economic regeneration and reducing poverty. | *Due to the current budget cost pressures, an organisational redesign is required to reduce costs and achieve a structural balance. This could result in reductions in non-statutory activity, rationing of the council's priorities set out in the corporate plan,*<br><br>*This will adversely affect the capacity capabilities within the IWC at all levels.* |
| **Robust Programme Management**<br><br>**Review Date 31/03/23** | • The programme management framework is becoming embedded throughout the organisation, aided by the oversight of the Strategic Programme Board and the Leader's Programme Review Board chaired by the Leader.<br>• A comprehensive Project Management training pathway is in place including online, internal, and external courses. | • More challenge is now being applied to the council's core programmes of work to ensure their timely delivery and impact on the Island's vision. This challenge includes periodic health checks on the programmes and projects that are reported to the Strategic Programme Board. |
| **Regeneration programme**<br><br>**Review Date 31/03/23** | • The Regeneration Programme is a significant element of the work that is monitored closely by the Strategic Programme Board and the Councillor review board that is chaired by the Leader of the Council<br>• Newport Harbour Masterplan Phase 1 will complete in August 2022 and the Supplementary Planning Document will be submitted to Cabinet *in Spring 2023*<br>• Venture Quays site development progressing well following the award of £5.8m from the government's levelling up fund. Work is scheduled to commence in Autumn 2022 and complete by March 2024<br>• The project to bring the current road, adjacent land, and infrastructure the Camp Hill estate works started in August 2021 with the lighting works completed in September 2022.<br>• *Standardisation of project documentation and improved reporting to the programme* | • Increasing costs for both labour and materials due to inflation could potentially mean that the scope of projects needs to be reviewed and or projects paused or deleted from the programme to ensure that critical priority projects are delivered |

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| | *boards is providing more accurate accounts of the projects' status* | |
| **Strategic risk register**<br><br>**Review Date 31/03/23** | • Annual review of the IWC Risk Management Strategy is in process, due date 28 February 2023.<br>• An information session for members of the IWC Audit Committee was held in March 2022 and further sessions will take place throughout the year.<br>• Directorates can self-serve updates and reports from the IWC Risk Management System.<br>• *Additional support to the directorate service boards has raised the profile of service risk reporting, all directorates are actively engaging in the process to improve recording and reporting at service level.*<br>• *Internal audit review in January gave risk management a rating of "assurance" evidencing the improvement across the council.* | |
| **Increase in levels of unmet Housing Needs**<br><br>**Review Date 31/03/23** | • Following the onset of COVID 19, the housing market on the IOW has fundamentally changed, resulting in few if any properties being available to rent on the open market.<br>• Data indicates there has been an 82 percent reduction in available private rented properties reducing from an average of 350 homes per month being available up until December 2019, to around 60 homes per month by October 2021.<br>• We are preventing more households than ever from becoming homeless but numbers of households needing accommodation provided by the local authority is increasing month on month which is increasingly challenging given the local housing market. | • Traditionally the Private Rented Sector accommodates around 19 percent of IOW households equating to around 15,000 families. Demand for rented properties is reported to be 376 percent higher than pre COVID levels, house prices increasing by 25 percent and people repurposing their properties for short term lets has triggered a significant housing market failure and has driven increasing numbers of displaced families to approach the council for social or "affordable" rented housing.<br>• 35.89% increase in the number of families accommodated in Temporary Accommodation (April 2020 – April 2022)<br>• 25% increase in the numbers of households prevented from homelessness. (August 2020-August 2022) |
| **Increase in levels of unmet Housing Needs – Prevention**<br><br>**Review Date 31/03/23** | • We have triggered a one-year extension of community support service contracts delivered by Citizens Advice Bureau, The Law Centre, and Wight Dash.<br>• *Housing have negotiated an option to extend and increase our bespoke accommodation for families to manage our statutory duties and increase in demand for services. This option to maintain our enhanced emergency/ temporary accommodation offer has been* | • *Community support services will not be extended beyond the current contract term.* |

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| | *approved. This reduces the likelihood that the IWC will need to place households off island and in unsuitable accommodation options as defined by legislation.* | |
| **Increase in levels of unmet Housing Needs - Intervention**<br><br>**Review Date 31/03/23** | • On the 17th January it was agreed to lease 10 units of bespoke accommodation from a local organisation to help the IWC meet the emergency accommodation needs of families during the period between April 2022- March 2023.<br>• As part of the Rough Sleeping Accommodation Project the Council has purchased 4 properties and engaged a partner to manage them and provide support services to the residents. | • Limited officer resource to manage further bids to Homes England for additional properties. Delivery of the properties takes a lot more managing than was anticipated and puts a lot of strain on the teams involved. All match funding 106 monies have been used in the first round of properties. An "Acquisition Strategy" is being developed' and will be presented at cabinet for approval. |
| **Increase in levels of unmet Housing Needs - Recovery**<br><br>**Review Date 31/03/23** | • On the 14th January 2022 cabinet, agreed to proceed with a modular relocatable housing development to help meet the needs of homeless families subject to approval of the annual budget by Full Council in February and approval of a Full Business Case by Cabinet.<br>• A 20-unit site in Newport Harbour for modular relocatable housing was scheduled to begin construction in November 2022 subject to planning approval being in place with occupation scheduled from June 2023<br>• 3 sites will be developed for housing as part of the Brownfield Land Release Fund (Berry Hill in Lake, former Weston Primary School site in Totland and Thompson House near Newport).<br>• Further discussion to evaluate the offers has been reported through the to the Housing Members Board in December. | • Pressure points on this are the decisions by members on disposal and demolition<br><br>• *Tender not yet issued - June 23 delivery will be delayed*<br><br>• *Awaiting decision from Leader/Deputy on progressing with schemes that are compliant.* |
| **Delivery of the Climate Change and Environment Strategy**<br><br>**Review Date 31/03/23** | • Following on from the Council declaring a Climate Emergency in 2019 a comprehensive Climate Change and Environment Strategy has been published with the main aims to achieve net-carbon zero status by 2030 for the Council, by 2035 for all school estates and for the Island by 2040<br>• As part of the "Green Corridor" the council is bidding for £14 million from the governments next round of levelling up funding. This funding is proposed to be use on a "green link corridor" between Ryde and Yarmouth which will include a number of projects aimed at reducing car journeys and making routes both in town and between town more easily navigable for cyclist and walkers. Another aim will be to improvements to the bus | All decisions taken by the Council need to consider their contribution towards achieving the aims of the Climate Change and Environment Strategy |

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| | infrastructure along the routes between Ryde and Yarmouth<br>• A new Procurement Strategy that ensures that goods and services procured are done so in a way that supports progress of the Climate Change and Environment Strategy was presented to Cabinet in September 2022<br>• All performance and activity information within the Quarterly Performance Management Report is linked to the most appropriate United Nations Sustainability Goal | |

| **STRATEGIC RISK 14** | | |
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| **Additional demands placed upon the Isle of Wight Council and partners owing to a pandemic or similar large-scale outbreak**<br><br>**Assigned to: Director of Public Health** | | |
| **Inherent score** | **Target score** | **Current score** |
| **16 RED** | **12 RED** | **12 RED** |
| **Previous scores** | | |
| **Dec 22** | **Sep 22** | **Jul 22** |
| **12 RED** | **12 RED** | **16 RED** |
| **Mitigation** | **Update on Activity/Status** | **Pressure Points** |
| **Preparedness for other novel infectious disease (including COVID-19)**<br><br>**Review Date 31/03/23** | • The Isle of Wight Council Public Health team works closely with the United Kingdom Health Security Agency on all infectious disease outbreaks on the Isle of Wight.<br>• The IWC Pandemic Influenza Plan will be reviewed with lessons learnt from the COVID-19 pandemic response with consideration to broadening to a broader pandemic response plan.<br>• The Public Health team works closely with the Isle of Wight Council's Emergency Management Team to ensure that Outbreak and Pandemic Influenza Plans are linked into other Council and Multi-agency Emergency Response Plans. | • With regards to COVID-19, the Isle of Wight Council Public Health team continues to carefully monitor and respond the situation but is now placing an emphasis on advising the public on how to live safely with respiratory infections, including Covid 19.<br>• An Incident Response Plan specifically produced to work across both Public Health Teams, combined with staff receiving specific training set to role allocations will enhance the team's overall response capability. This plan is linked to the authority's own response arrangements and those of the Local Resilience Forums (LRF) to allow greater prominence within the command-and-control structures that are established. |
| **Partner Organisations** | • Communication with partners to establish pressures, including: | |

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| **Review Date 31/03/23** | - United Kingdom Health Security Agency (UKHSA)<br>- NHS – Trust and CCG<br>- Multi-agency representative on the Island Resilience Forum<br>- HIOW Integrated Care System<br>- IOW Integrated Care Partnership<br>- Local Resilience Forums (LRF)<br>- Other Local Authorities | |
| **Internal arrangements**<br><br>**Complete – review is ongoing** | • An Incident Response Plan has been produced specifically for the joint public health team. This combined with staff receiving specific training set to role allocations will enhance the team's overall response capability.<br>• This plan is linked to the authority's own existing response arrangements and those of the Local Resilience Forum to allow greater prominence within the command-and-control structures that are established.<br>• *Work with IOWC EP colleagues form April 2023 will take place in reviewing an amending further any additions requirements for Pandemic influenza response.* | |
| **External arrangements**<br><br>**Review Date 31/03/23** | • A COVID-19 working group brings together system-wide representatives to discuss the COVID-19 situation on the Island and escalate concerns which are then fed into the COVID-19 Health Protection Board chaired by the Director of Public Health (DPH). Tabletop exercises have been held at working group and health protection board level to test the plan.<br>• An Island Tactical Co-ordination Group (ITCG) convenes at a multi-agency level, including police, fire, NHS Trust, ambulance, council, public health, CCG, Military, ferry companies, utilities, and prisons in case of a multiagency response.<br>• *Hampshire and IOW Local Resilience Forum (HIOW LRF) have revised and are currently circulating the Pandemic Framework arrangements for consultation. IOWC Emergency Management and public health have inputted into the consultation period and the revised Framework will be published once approved at the HIOW LRF Executive.* | |
| **Provision of up-to-date information** | • The Council is no longer producing statistics regarding Covid infection rates | |

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| **Next review due** **COMPLETE** | or vaccination take up. Instead, in line with central government policy, the council is tailoring its messages around living safely with Covid 19 | |

| **STRATEGIC RISK 15** | | |
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| **Dealing with threats to business continuity (including cyber incidents)**<br><br>**Assigned to: Assistant Chief Executive and Director of Strategy** | | |
| **Inherent score** | **Target score** | **Current score (proposed)** |
| **12 RED** | **6 LOW** | **9 AMBER** |
| **Previous scores** | | |
| **Dec 22** | **Sep 22** | **Jul 22** |
| **9 AMBER** | **9 AMBER** | **9 AMBER** |

| **Mitigation** | **Update on Activity/Status** | **Pressure Points** |
|---|---|---|
| **Revised Business Continuity Plans completed**<br><br>**Review Date 30/06/23** | • Emergency Management will issue a revised template to include the listing of all ICT systems, consequence of failure and the continuity arrangements. These will be issued to all service managers requiring a new version of their Business Continuity Plan (BCP) be registered with Emergency Management within four weeks of receiving the revised template.<br>• Plan reviews to be undertaken every 12 months.<br>• *An emergency planning exercise, led by the strategic manager for ICT and digital services (and SIRO, senior information risk officer) is being planned for 2023, specifically to address the threat of a cyber-attack.*<br>• *A cyber security culture exercise is also planned for March 2023 to raise awareness of cyber security and everyone's responsibility for it.* | • Two BC Plans remain outstanding:<br><br>Highways PFI and Waste & Coastal services business continuity plans are to be updated *by Feb 2023.*<br><br>• Reviews of all current business continuity plans, including arrangements for loss of ICT, are taking place throughout the year, including walkthroughs of plans with managers and staff to assist with the checking of their robustness in the event of needing to be enacted. This also considered the potential for planned power outages. |
| **Secure paper copies of Revised Business Continuity Plans**<br><br>**Review date 31/12/22** | • All services must ensure that there is a paper copy of their current BCP that is copied and circulated to key staff so that the plan can be enacted in the event of significant loss of ICT systems.<br>• All service areas have been reminded of this requirement. | |
| **Revised Business Continuity Plans distributed, and staff trained**<br><br>**COMPLETE** | • Service Managers will ensure appropriate awareness training is in place for the staff to know what actions they should all take in the event of loss or disruption to services. | |

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| | • All services have been advised of this requirement. | |
| **IWC - Cyber Incident Response Plan (developed and maintained by ICT)**<br><br>**Plan Review date May 2023** | • A Cyber Incident Response Plan has been drafted to provide a structured and systematic incident response process for all cyber security incidents that affect any of the Isle of Wight Council's information technology (IT) systems, network, data, and information assets, *including the council's data held or IT services provided by third-party vendors or other service providers.* | |
| **Hampshire, Isle of Wight Local Resilience Forum Cyber Resilience Framework**<br><br>**COMPLETE** | • *This Framework ensures a co-ordinated multi-agency approach to a cyber incident within an agency, that may impact on other agencies through interdependencies between systems.* | |

| **STRATEGIC RISK 16 – NEW** | | |
|---|---|---|
| **Ability to manage the impact of the cost-of-living crisis (CoLC) on the council's activities and sustain service delivery**<br><br>**Assigned to:** Chief Executive | | |
| **Inherent score** | **Target score** | **Current score (proposed)** |
| **12 RED** | **9 AMBER** | **12 RED** |
| **Previous scores** | | |
| **Dec 22** | **Sep 22** | **Jul 22** |
| **N/A** | **N/A** | **N/A** |
| **Mitigation** | **Update on Activity/Status** | **Pressure Points** |
| **Recovery Cell – Chaired by Director of Regeneration**<br><br>**The Health and Well-being Board requested the recovery cell continues, the aim is to co-ordinate and share intelligence through its cross-partnership approach, with public sector partners and third sector agencies.** | Key areas of activity include:<br>• Housing and the Housing Market Challenges<br>• Mental Health and general well-being<br>• Support services for Education Recovery<br>• The cost of living<br>• The energy agenda<br>• Poverty<br><br>Activities undertaken to support the above include:<br>• Development of a support compendium for Housing Associations, Adult Social Care, and the NHS. They use this to | 44% increase in Personal Independence Plans (PIP) compared to last year – people trying to increase income |

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| **Maintain and develop the recovery action plan.**<br><br>**IN PLACE MEETS MONTHLY** | signpost residents (and staff) to sources of support and information.<br>• Delivery of warm spaces (West Wight Churches / Aspire / Ventnor Town Council)<br>• Food security event<br>• Food pantries at key locations<br>• Keep Warm Winter event hosted by Footprint Trust<br>• Advice First Aid. This gives volunteers and organisations an understanding of how to sign post, where to signpost, confidentiality etc. Accessing over 120 people within the community<br>• Delivering the Household Support Fund money through Connect for Communities | |
| **Impact Analysis undertaken at Service Level to identify the impact across the council**<br><br>**COMPLETE** | • All key service leads have contributed to the discussions to collate the service level impacts.<br>• The impact assessment details all service impacts and the mitigations that are in place in each area.<br>• The impact assessment was shared with Corporate Management Team for sign off and key themes within the assessment were used to develop the strategic risk for the council.<br>• Each service area will use the impact assessment to review and manage the service risks in their areas and will record the most relevant impacts on their service risk registers to ensure effective monitoring and progress against mitigations.<br>• Each service area will use the impact assessment to review and manage the service risks in their areas and will record the most relevant impacts on their service risk registers to ensure effective monitoring and progress against mitigations | |
| Advice and Information provided to our own workforce to support the Health and Wellbeing of council staff. | • Regular staff supervision sessions focus on wellbeing and providing opportunities for conversations around any difficulties.<br>• Signposting towards health and wellbeing pages on the intranet<br>• Managers ensure staff can access and utilise the council pool cars. | |

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| COMPLETE – UPDATES CONTINUE AS REQUIRED | • Human Resources (HR) continue to raise awareness through regular communication of health and wellbeing hub pages. Signposting managers and employees to relevant courses available via learning hub.<br>• HR continue to track compliance with the Attendance Management and Wellbeing Strategy. Regular updates are shared with Corporate Management Team. | |
| **Additional support and training in the contact centre and help centres to support the increased number of contacts to the council requesting financial support.**<br><br>**Fortnightly debt panel meetings with ASCHN colleagues to provide support**<br><br>**Review Date 31/03/23** | • Increase in communication from financial support services for customers leading to greater numbers of applications for Debt Relief Orders, bankruptcies, Individual Voluntary Arrangements (IVAs) etc. This has been mitigated by the creation of a team to manage applications under the Breathing Space initiative<br>• The contact centre is capturing the number of calls received into the Contact Centre and Help Centres from residents seeking guidance on the impact of cost-of-living crisis. Specific FAQs have been developed for use when offering advice both over the telephone and customer enquiries at help centres.<br>• Recruitment to a fixed term post to allow training and increase capacity ahead of potential demand.<br>• Increase in calls to the Revenues and Benefits service due to customers not being able to pay their council tax/needing to claim benefits.<br>• More specialist assistance from the council tax team and monitoring of silver number to maximise performance and ability to deal with additional calls, cross training staff to increase capacity.<br>• Training of advisors to discuss what payments a customer can make to assist collection rates. In liaison with service areas i.e., homeless team<br>• Training of contact centre advisors on these skills as a priority to assist with increase in calls. Signposting to other organisations for assistance | |

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<tr>
<td>Impact on Council Income identified and actions in place to provide additional training to staff, support for government funding and signposting to appropriate external support services.<br><br>Impact on some council owned property occupiers is mitigated through the government funding for energy which is being monitored.<br><br>Review Date 31/03/23</td>
<td><ul><li>Training for staff to support additional flexibility for payment arrangements with reviews, recruitment for further staff on a fixed term basis to support potential increase in calls.</li><li>Welfare Officer role in place to assist with applications for support, signposting etc</li><li>Staff training to be undertaken to highlight fraudulent activity and the referral process in place for housing benefit fraudulent activity with the Department for Work and Pensions as well as the Local Council Tax Support Scheme through Portsmouth city council fraud officer.</li><li>HR have reissued the Whistle Blowing policy to all staff through the vine and other comms channels.</li></ul></td>
<td><ul><li>Potential increase in fraudulent activity because of residents experiencing financial crisis, could include fraudulent benefit claims, not notifying of changes in circumstances on time.</li><li>Increase in number of households unable to pay council tax, rents or other paid for services provided by the council.</li><li>Pressure on household and schools' budgets impacts on discretionary spend (travel to venues, admissions/ tickets. Impacts on income targets across leisure and heritage services.</li></ul></td>
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<td>Council services have assessed the impact of known and anticipated contractual service price increases because of inflation.<br><br>They have identified ways in which these costs can be mitigated either through a reduction in the volume of service requirements, reduction in overall service delivery or delay of purchase requirements.<br><br>They have also submitted the evidence base for price increases needed to manage the budget setting process.<br><br>Review Date 31/03/23</td>
<td><ul><li>The ICT and Digital Service revenue budget has undergone a zero-based budget exercise to make sure that all historic inflationary budget pressures not previously addressed and current cost of living budget pressures are appropriately assigned to the service provision area to allow for more accurate budget monitoring to take place.</li><li>Services constantly adjust and respond to local, regional, and national economic challenges and amend service and responses on a continuous basis.</li><li>Services continue to renegotiate contracts with key providers where possible.</li><li>The IWC have taken advantage of the Government's Salix project to install Air source heat pumps and solar panels to help reduce utility bills and our carbon footprint</li><li>Some IWC leisure sites could be used for meetings / classrooms / evening classes as already open and there are meeting rooms available, also studios are available in the afternoons.</li><li>To reduce Leisure site utility bills, pool temperatures have been lowered by half a degree.</li></ul></td>
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| | • Leisure sites do not have the resource to advertise & promote these areas currently. | |
| **Adult Social Care, care market sustainability/ Care budget pressure:**<br><br>**There has been extensive work to develop a budget that supports key statutory services resulting in a Council Tax increase of 4.99% (2.0% of which is raised specifically to be passported to Adult Social Care).**<br><br>**Budget proposals (subject to full council agreement) to support adult social care through increased spending in Adult Social Care of £7.6m being greater than the funding provided by the Adult Social Care precept and the additional Social Care Grant from Central Government.**<br><br>**Adult social care continues to support the providers to the best extent possible, have incurred overspend because of increased demand and higher rates of care.**<br><br>**Negotiating with Integrated Care Board for joint funding arrangements for complex care and thereby contributing to the provider costs**<br><br>**Review Date: 31/03/23** | • Continue to support the providers to the best extent possible, have incurred overspend because of increased demand and higher rates of care.<br>• Negotiating with Integrated Care Board for joint funding arrangements for complex care and thereby contributing to the provider costs<br>• Bidding for winter pressures monies to meet demand<br>• System wide workforce strategy being developed<br>• Targeted island wide adult social care recruitment campaign and dedicated free website for providers and potential job seekers<br>• Rising energy costs likely to lead to an increase in number of households that are at risk or in fuel poverty. | The actual cost of providing these services (e.g., recruiting and retaining staff, service overheads, etc) is increasing at a rate and to a level that exceeds the funding allocated to current contractual arrangements and budget forecasts. In the absence of further funding, this will may result in cost pressure and adverse financial performance against ASCHN budgets. |
| **An increase in child poverty will likely impact the demand on and need for a range of services** | • Recruitment of social workers remains a priority and is actively undertaken daily. | If more children require help or protection, this will increase the pressure across all areas of Children's Services which is |

| | | |
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| **from early help to child protection.**<br><br>**Despite the challenging financial position, the council faces, within the budget proposals to be agreed at full council, there is proposed increase spending in Children's Services of £4.3m**<br><br>**IOW has been successful in being granted funding and status as within the Family Hub Trailblazer scheme to extend and enhance the current Family Hub offer.**<br><br>**Review Date 31/03/23** | • Childrens services intend to recruit to the family help model which will add some capacity across the service. | experiencing high levels of demand post pandemic |

| **STRATEGIC RISK 17 - NEW** | | |
|---|---|---|
| **Description: Failure of coastal defences (where the policy is to "hold the line") resulting in high risk to people, property, infrastructure and land, significant impact on communities and the council finances. The Isle of Wight Council has a vested responsibility for controlling coastal erosion under the Coast Protection Act 1949.**<br><br>**Assigned to: Director of Neighbourhoods** | | |
| **Inherent Score** | **Target Score** | **Current Score (Proposed)** |
| **16 VERY HIGH** | **13 HIGH** | **15 VERY HIGH** |
| | | |
| **Dec 22** | **Sep 22** | **Jul 22** |
| **N/A** | **N/A** | **N/A** |
| **Mitigation** | | |
| **Partnership with the Environment Agency has identified 4 priority areas (Yaverland. Bembridge. Shanklin. Ventnor) to refurbish existing coastal defences to reduce growing impacts of coastal erosion, flooding,** | • Ventnor Coastal Protection Scheme: EA managed procurement is progressing although subject to a delay. Programme reviews underway to consider impacts on original proposals of the more urgent works for 4 frontages identified by recent surveys and the current IWC emergency works (see pressure points). Original planned scheme completion 2029.<br><br>• Yaverland Seawall Refurbishment Scheme: ground investigations are underway in Jan 2023. Scheme completion planned for 2026. | • Ventnor Eastern Cliff Esplanade sea defences failure in Nov 22. IWC managed emergency works to stabilise site. EA will fund both emergency works and the next phase of more substantial urgent works to be managed by IWC which will take place in 2023. Urgent works will maintain the seawall until the main Ventnor scheme is completed in 2029. |

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|---|---|---|
| **and land sliding on communities.**<br>**These locations are eligible for national government funding (FCERM Grant in Aid) through local partnership funding contributions, the amounts of which depend on the cost: benefit ratio of each scheme.**<br>**The EA are managing the 4 main schemes**<br>**Review Date 31/03/23** | • Shanklin Seawall Refurbishment Scheme: ground investigations underway in Jan 2023. Scheme completion planned for 2026.<br>• Bembridge Embankment Road: topographic survey commenced and discussions continued with Natural England regarding environmental limitations / seasonal constraints for the planned ground investigations. Scheme completion planned for 2026. | • EA main schemes are not scheduled to start until 2026 at the earliest. Potential for assets to deteriorate/fail during this period.<br>• For the Bembridge scheme nesting and wintering bird season constraints have the risk of causing a delay and limiting which options are possible to complete the scheme. |
| **Memorandum of understanding with Coastal Partners (Havant County Council) who are conducting twice annual T28 condition surveys on all IWC maintained coastal assets.** | • We have identified key areas where coastal assets have degraded to a poor or failure condition and are a risk to people, property, and environment. | • |
| **Capital bid for 2023/24** | • We have submitted a capital bid for 2023/24 to make repairs to assets identified by Coastal Partners to support slowing down their degradation.<br>• Capital bid includes a project officer to focus on delivering the capital works. | • Awaiting capital budget decision on 22 Feb 2023. |
| **Oversight for coastal management has been consolidated into the responsibility of the Strategic Manager of Environment and Waste. This will provide a coordinated, strategic, and operational approach to integrated coastal zone management.** | • The emergency works at Ventnor Eastern Cliffs Esplanade has been managed by IWC and has been acknowledged by the EA as an exemplar example of partnership working and leadership to swiftly manage a complex coastal defence failure. | |

# Risk Prioritisation Matrix

Appendix 2

| Likelihood/Probability | | | | |
|---|---|---|---|---|
| **4**<br>**V. Likely** | 7<br>**Medium** | 11<br>**Medium** | 14<br>**High** | 16<br>**VERY HIGH** |
| **3**<br>**Likely** | 4<br>**Low** | 8<br>**Medium** | 12<br>**High** | 15<br>**VERY HIGH** |
| **2**<br>**Unlikely** | 2<br>**Low** | 5<br>**Low** | 9<br>**Medium** | 13<br>**High** |
| **1**<br>**Remote** | 1<br>**Low** | 3<br>**Low** | 6<br>**Low** | 10<br>**Medium** |
| **Scale** | **1**<br>**Low** | **2**<br>**Medium** | **3**<br>**High** | **4**<br>**Major** |

**Impact/Severity**

| | | |
|---|---|---|
| 15 - 16 | Red | V. high risk |
| 12 - 14 | Red | High risk |
| 7 - 11 | Amber | Medium risk |
| 1 - 6 | Green | Low risk |

Likelihood/Probability Criteria

| FACTOR | SCALE | THREATS - DESCRIPTION | INDICATORS |
|---|---|---|---|
| Very likely | 4 | More than 75% chance of occurrence | Regular occurrence<br>Circumstances frequently encountered -daily/weekly/monthly |
| Likely | 3 | 40% - 75% chance of occurrence | Likely to happen at some point within the next 1-2 years<br>Circumstances occasionally encountered (few times a year) |
| Unlikely | 2 | 10% - 40% chance of occurrence | Only likely to happen 3 or more years |
| Remote | 1 | Less than 10% chance of occurrence | Has happened rarely/never before |

# Impact/Severity Criteria

| Factor | Scale | Effect on Service | Embarrassment/ reputation | Personal Safety | Personal privacy infringement | Failure to provide statutory duties/meet legal obligations | Financial | Effect on Project Objectives/ Schedule Deadlines |
|---|---|---|---|---|---|---|---|---|
| **Major** | **4** | Major loss of service, including several important areas of service and /or protracted period. Service Disruption 5+ Days | Adverse and persistent national media coverage Adverse central government response, involving (threat of) removal of delegated powers Officer(s) and/or Members forced to resign | Death of an individual or several people | All personal details compromised/ revealed | Litigation/claims/fines from Departmental £250k + Corporate £500k + | Costing over £500,000 | Complete failure of project/ extreme delay – 3 months or more |
| **High** | **3** | Complete loss of an important service area for a short period Major effect to services in one or more areas for a period of weeks Service Disruption 3-5 Days | Adverse publicity in professional/municipal press, affecting perception/standing in professional/local government community Adverse local publicity of a major and persistent nature | Major injury to an individual or several people | Many individual personal details compromised/ revealed | Litigation/claims/fines from Departmental £50k to £125k Corporate £100k to £250k | Costing between £50,000 and £500,000 | Significant impact on project or most of expected benefits fail/ major delay – 2-3 months |
| **Medium** | **2** | Major effect to an important service area for a short period Adverse effect to services in one or more areas for a period of weeks Service Disruption 2-3 Days | Adverse local publicity /local public opinion aware Statutory prosecution of a non-serious nature | Severe injury to an individual or several people | Some individual personal details compromised/ revealed | Litigation/claims/fines from Departmental £25k to £50k Corporate £50k to £100k | Costing between £5,000 and £50,000 | Adverse effect on project/ significant slippage – 3 weeks–2 months |
| **Low** | **1** | Brief disruption of important service area Significant effect to non-crucial service area Service Disruption 1Day | Contained within section/Unit or Directorate Complaint from individual/small group, of arguable merit | Minor injury or discomfort to an individual or several people | Isolated individual personal detail compromised/ revealed | Litigation/claims/fines from Departmental £12k to £25k Corporate £25k to £50k | Costing less than £5,000 | Minimal impact to project/ slight delay less than 2 weeks |

Purpose: For Noting

# Committee report

| | |
|---|---|
| Committee | **AUDIT COMMITTEE** |
| Date | **20 MARCH 2023** |
| Title | **AUDIT COMMITTEE ANNUAL REPORT 2022-23** |
| Report of | **CHAIRMAN OF THE AUDIT COMMITTEE** |

## EXECUTIVE SUMMARY

1. This report is the annual report to the Audit Committee, in line with the Chartered Institute of Public Finance & Accountancy (CIPFA) position statement for audit committees issued in 2022.

## RECOMMENDATION

2. The Audit Committee notes the Audit Committee chair's Report for 2022/23.

## BACKGROUND

3. In its position statement for audit committees in local authorities, CIPFA set out that committees should:
   - report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.

4. It is noted that the last chair's annual report was published in 2019/20. The work of the committee was affected by COVID. Council elections took place in 2021 resulting in a new chair being appointed and the majority of committee members being new to the Audit Committee.

5. Due to these factors, in consultation with the Chief Internal Auditor, publication of annual reports was suspended for both 2020/21 and 2021/22.

6. The CIPFA position statement sets out audit committee practice and principles that should be adopted under headings listed below (and on which this report has been structured):
   - Independent and effective model
   - Core functions
   - Audit committee membership
   - Engagement and outputs
   - Impact

## INDEPENDENT AND EFFECTIVE MODEL

7. The CIPFA position statement sets out that:
   The committee should:
   - be directly accountable to the authority's governing body
   - be independent of both the executive and the scrutiny functions
   - have rights of access to and constructive engagement with other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups
   - have rights to request reports and seek assurances from relevant officers
   - be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.

8. The committee is established by the council's constitution as a full committee with accountability to Full Council. Its terms of reference are set by Full Council.

9. Full Council at its meeting of May 2022 resolved that it be confirmed that the terms of reference of the Audit Committee includes considerations of proposals to revise the constitution, and that the constitution be so amended by the Monitoring Officer to make this clearer.

10. The constitution sets out that: "Audit Committee members should ideally not be Cabinet members or ideally not members of a Scrutiny committee due to potential conflicts of interest."

11. Isle of Wight Council's relatively small overall membership (39) has made meeting this challenging. Four members (a majority) of the committee are not Cabinet members or members of a scrutiny committee, including the chair since May 2022. A Cabinet member resigned from the committee noting that a change of responsibilities could lead to a conflict of interest. The remaining Cabinet member has identified any conflicts and taken no part in proceedings where necessary.

12. The committee has a constructive relationship with the scrutiny committees, including referring matters to them for their possible consideration. In addition, the chair of the Audit Committee and the chair of the Corporate Scrutiny Committee meet regularly to discuss matters of particular concern.

13. The chair of the committee is regularly briefed on risk management reports by appropriate council officers. A recent meeting was held to discuss the emergent strategic risks on the cost-of-living crisis and coastal defences.

14. The committee's membership is not large and is set at seven members. At present, there is a vacancy for one member. The political balance is in line with the requirements for overall proportionality across committees.

## CORE FUNCTIONS

15. The CIPFA position statement sets out that:

    The core functions of the audit committee are to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained.

16. The statement sets out specific responsibilities which are discussed under the italicised headings below. The statement lists the following:

*Maintenance of governance, risk and control arrangements*

- Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.
- Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.
- Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.

*Financial and governance reporting*

- Be satisfied that the authority's accountability statements, including the annual governance statement, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
- Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.
- Establishing appropriate and effective arrangements for audit and assurance
- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:
    - oversee its independence, objectivity, performance and conformance to professional standards
    - to support effective arrangements for internal audit
    - to promote the effective use of internal audit within the assurance framework.
- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
- Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
- Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.

17. In line with its constitutional terms of reference, the above is achieved through the committee receiving:

- Regular reports from the council's internal auditors, who carry out a programme of reviews across all aspects of the council's business. The committee has input into deciding what the internal auditors will look at when it considers the draft internal audit plan. It also sees the results of their work as the year progresses and the annual overall audit opinion. Any serious issues of risk or weaknesses in internal control are therefore likely to be identified and brought to the committee's attention.

- Reports from the council's external auditors who have a range of statutory responsibilities to fulfil. The committee acts as the body as 'those charged with governance' and receives an annual report from the external auditors on the council's financial governance. The work of the external auditors provides the committee with an entirely independent opinion on the council's financial affairs, its accounting arrangements and on whether it secures value for money.

- Regular reports on the status of the council's strategic and other risks, and an annual report on the council's risk management arrangements. It therefore has an opportunity to judge whether those arrangements are adequate and whether the management of risk is robust.

- Regular reports on the council's procurement activities and can enquire into any issues which relate to the council's procurement procedures. The committee's terms of reference also include the role of reviewing and approving the council's contract standing orders.

- The council's Treasury Management Strategy, which has the potential to be a significant risk to the council. This strategy is recommended to full council for approval as part of the annual budget process. The committee receives regular updates on the performance of the council's treasury management activity.

- The council's draft and final accounts and therefore receives assurance that the council's financial transactions have been properly accounted for.

- The council's Annual Governance Statement which sets out how the council meets its governance requirements. This statement is approved by the committee at the same time as the annual accounts.

- The council's Financial Regulations and Contract Standing Orders and approves any proposed changes to them.

- Annual reports on the level of whistle blowing and counter fraud activities within the council.

- Annual progress report on the performance of the council's property portfolio.

18. Members of the committee constructively challenge the reports through questions to cabinet members and council officers normally present at the meeting, or whose attendance has been requested specifically.

19. The committee has maintained the practice of receiving full reports on audits which have been assessed at limited assurance or less. On specific items it has requested follow-up reports to satisfy itself of progress. Examples are the development of the new council website and issues relating to the IT system, Technology Forge.

20. The committee has paid particular interest to the risk register, identifying ways in which its presentation and content could be developed to make it more readily understandable.

21. As part of the report preparation process, the chair has the opportunity to comment on a number of draft reports and raise questions.

22. Where issues of concern to committee members are outside of the scope of the Audit Committee's terms of reference, scrutiny committees have been requested they give them consideration.

23. On the specific matter of future external audit arrangements, these were considered by the committee in December 2021 with a recommendation presented to Full Council which resolved to adopt it.

<u>AUDIT COMMITTEE MEMBERSHIP</u>

24. The CIPFA position statement sets out that:

To provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority, the members of the committee will need to be of high calibre. When selecting elected representatives to be on the committee or when co-opting independent members, aptitude should be considered alongside relevant knowledge, skills and experience.

Characteristics of audit committee membership:

- A membership that is trained to fulfil their role so that members are objective, have an inquiring and independent approach, and are knowledgeable.
- A membership that promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives.
- A strong, independently minded chair, displaying a depth of knowledge, skills, and interest.
- There are many personal skills needed to be an effective chair, but key to these are:
    - promoting apolitical open discussion
    - managing meetings to cover all business and encouraging a candid approach from all participants
    - maintaining the focus of the committee on matters of greatest priority.
- Willingness to operate in an apolitical manner.
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.
- Knowledge, expertise and interest in the work of the committee.

25. While expertise in the areas within the remit of the committee is very helpful, the attitude of committee members and willingness to have appropriate training are of equal importance.

26. The appointment of co-opted independent members on the committee should consider the overall knowledge and expertise of the existing members.

27. Specialist training was arranged for members of both the Audit Committee and scrutiny committees in July 2022, though few members were able to attend. The chair attends (online) a sector wide forum for Audit Committee chairs, which provides an opportunity to share and disseminate good practice.

28. The chair and vice-chair re-assessed the effectiveness of the Audit Committee against CIPFA guidance, assisted by internal audit officers in the autumn of 2022.

29. The key issue identified is the desirability of co-opting to the committee someone to provide specialist input. This would also be in line with a recommendation from the 2020 Redman Review.

30. All committee members are mindful of the need for unbiased attitudes and have engaged in their responsibilities in an apolitical manner.

31. The chair has been specifically mindful of the specific requirements and has sought to ensure that they have been met as the committee has conducted its business.

32. It is desirable for the committee to engage directly and separately with its external auditors. The chair has arranged for meetings to take place with either himself or with the committee ahead of meetings of the Audit Committee.

ENGAGEMENT AND OUTPUTS

33. The CIPFA position statement sets out that:

The audit committee should be established and supported to enable it to address the full range of responsibilities within its terms of reference and to generate planned outputs. To discharge its responsibilities effectively, the committee should:

- meet regularly, at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
- be able to meet privately and separately with the external auditor and with the head of internal audit
- include, as regular attendees, the chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor; other attendees may include the monitoring officer and the head of resources (where such a post exists). These officers should also be able to access the committee members, or the chair, as required
- have the right to call on any other officers or agencies of the authority as required
- support transparency, reporting regularly on its work to those charged with governance
- report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.

34. The committee remit is clearly defined in its terms of reference, contained in the council’s constitution.

35. The committee meets four times annually, aligned with financial quarters and the finalisation of key deliverables, for example the annual accounts. The procedure

how any confidential items should be considered is set out in the constitution. This was not necessary during 2022/23.

36. Regular meetings are held between the chair and the council's Chief Internal Auditor. At least annually, the committee meets with the external auditors without officers present.

37. Senior officers, included the Chief Executive, Director of Finance, Monitoring Officer and directors regularly attend Audit Committee meetings. The Chief Internal Auditor always attends Audit Committee meetings. Other officers are requested to attend meetings when there are agenda items where their attendance supports the committee in exercising its oversight role.

38. The committee has an annual work programme and formally reports on its activity annually, through this report (see elsewhere in this report regarding prior years when this has not taken place).

IMPACT

39. The CIPFA position statement sets out that:

As a non-executive body, the influence of the audit committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance.

The committee should evaluate its impact and identify areas for improvement.

40. In carrying out its business, the committee has commented on reports and questioned council officers and Cabinet members where necessary. In addition, questions and comments on draft reports are raised by the chair leading to appropriate changes in the final reports.

41. The chair has also taken opportunities to invite feedback from council officers and from the external auditors on the work of the committee, and his work as chair.

42. A formal process for assessing impact is not in place. Feedback from council officers and others is that the committee is engaging appropriately. Committee minutes identify key questions and concerns raised. At times, the committee has made formal resolutions such as to receive follow-up reports on audits which have been assessed as limited assurance or less.

43. In the coming year, the committee will work toward co-opting an independent member with appropriate knowledge and experience.

44. Work will also take place to ensure that appropriate training is in place for committee members.

45. Work will also take place to identify ways in which the committee's impact may be formally assessed.

46. The chair has discussed with the chief executive the possibility of observing consideration of risk management by senior officers from time to time.

## CORPORATE PRIORITIES AND STRATEGIC CONTEXT

47. The Audit Committee plays an important role in the council's governance arrangements as its terms of reference require it to provide independent assurance of the adequacy of the risk management framework and the associated control framework including independent scrutiny of the council's financial and non-financial performance. In particular, this is by ensuring the adequacy and effectiveness of risk management arrangements, the committee ensures that risks to the council achieving its aims, both strategic and operational are appropriately managed.

    Responding to climate change and enhancing the biosphere

    There are no direct impacts within this report that will affect this corporate priority.

    Economic Recovery and Reducing Poverty

    There are no direct impacts within this report that will affect this corporate priority.

    Impact on Young People and Future Generations

    There are no direct impacts within this report that will affect this corporate priority.

    Corporate Aims

    As above.

## FINANCIAL / BUDGET IMPLICATIONS

48. While there are no direct financial implications arising from this report, the committee plays a significant part in overseeing the financial governance of the council, not least by reviewing the council's financial statements and in being the focal point for the outcomes of both internal and external audit.

## LEGAL IMPLICATIONS

49. Again, while there are no direct legal implications of this report, the committee does play an important part in the council's governance arrangements and by receiving assurance from both internal and external auditors concerning the legality of council expenditure, and in terms of the compliance with its statutory and regulatory responsibilities through the terms of references of internal audit reviews.

## EQUALITY AND DIVERSITY

50. The council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership. Following an initial screening it is considered that there are no direct equality and diversity implications of this report for any of the protected groups.

## RISK MANAGEMENT

51. There are no direct risk issues associated with this report. It is important that the work of the committee is reported on at least on an annual basis and that the Full Council has an opportunity to review the committee's activities.

## BACKGROUND DOCUMENTS

CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022

https://www.cipfa.org/-/media/Files/Services/Support-for-audit-committees/CIPFA-Audit-Committee-Position-Statement-2022.pdf

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CLLR ANDREW GARRATT
Chair of the Audit Committee

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# AUDIT COMMITTEE WORKPLAN 2023-2024

| **EXTERNAL AUDIT** | **Responsibility** | **20 Mar 2023** | **31 July 2023** | **25 Sept 2023** | **11 Dec 2023** | **18 Mar 2024** | **July 2024** | **Sept 2024** | **Dec 2024** |
|---|---|---|---|---|---|---|---|---|---|
| External Auditors Annual Report | Ernst & Young | | ✓ Slipped from March 2023 | | | ✓ | | | |
| External Audit Plan – Isle of Wight Council | Ernst & Young | | ✓ | | | | ✓ | | |
| External Audit Plan – Isle of Wight Pension Fund | Ernst & Young | | ✓ | | | | ✓ | | |
| External Audit Results Report (inc. Letter of Representation) - IWC | Ernst & Young | ✓ | | ✓ | | | | ✓ | |
| External Audit Results Report (inc. Letter of Representation) – IWPF | Ernst & Young | ✓ | | ✓ | | | | ✓ | |
| **ACCOUNTS** | **Responsibility** | **20 Mar 2023** | **31 July 2023** | **25 Sept 2023** | **11 Dec 2023** | **18 Mar 2024** | **July 2024** | **Sept 2024** | **Dec 2024** |
| Approval of the Final Accounts | Chris Ward | ✓ | | ✓ | | | | ✓ | |
| **INTERNAL AUDIT** | **Responsibility** | **20 Mar 2023** | **31 July 2023** | **25 Sept 2023** | **11 Dec 2023** | **18 Mar 2024** | **July 2024** | **Sept 2024** | **Dec 2024** |
| Internal Audit Progress Report (inc. any high-risk reports in full) | Lizzi Goodwin | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Internal Audit Plan | Lizzi Goodwin | ✓ | | | | ✓ | | | |
| Internal Audit Annual Report (inc. Opinion) | Lizzi Goodwin | | ✓ | | | | ✓ | | |
| Fraud & Irregularity Annual Report (inc. Whistleblowing) | Lizzi Goodwin | | | | ✓ | | | | ✓ |
| Anti-Money Laundering Policy (3 yearly) | Lizzi Goodwin | ✓ | | | | | | | |
| **GOVERNANCE FRAMEWORK** | **Responsibility** | **20 Mar 2023** | **31 July 2023** | **25 Sept 2023** | **11 Dec 2023** | **18 Mar 2024** | **July 2024** | **Sept 2024** | **Dec 2024** |
| Chairman's Annual Report | Cllr Garratt | ✓ | | | ✓ | | | | ✓ |
| Annual Governance Statement | Debbie Downer | ✓ FINAL Slipped Sept 2022 | ✓ DRAFT | ✓ FINAL | | | ✓ DRAFT | ✓ FINAL | |
| Property Investment Portfolio Annual Report | Graeme Haigh | | ✓ | | | | ✓ | | |
| Procurement Half-Yearly Report | Hayley Holden | | ✓ | | ✓ | | ✓ | | ✓ |
| Treasury Management Strategy Annual Report | Jo Cooke | ✓ | | | | ✓ | | | |
| Treasury Management Quarterly Report | Jo Cooke | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| The Council's Risk Profile | Debbie Downer | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Review of the Constitution | Chris Potter | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

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