

# Agenda

Name of meeting	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
Date	<b>MONDAY 18 MARCH 2024</b>
Time	<b>10.00 AM</b>
Venue	<b>COUNCIL CHAMBER, COUNTY HALL, ISLE OF WIGHT</b>
Members of the committee	CLLRS A GARRATT (CHAIRMAN), V CHURCHMAN (VICE-CHAIRMAN), C CRITCHISON, C JARMAN, K LUCIONI, C QUIRK AND R REDRUP  Democratic Services Officer: Megan Tuckwell 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 5 - 20)

To confirm as a true record the Minutes of the meeting held on 11 December 2023.

3. **Declarations of Interest**

To invite councillors 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, a question must be put (including the name and address of the questioner) in writing or by email to Democratic Services [democratic.services@iow.gov.uk](mailto:democratic.services@iow.gov.uk), no later than two clear working days before the meeting. The deadline for submitting a written question is Wednesday, 13 March 2024.



Details of committee meetings can be viewed on the Council's [website](#).

This information may be available in alternative formats on request. Please note the meeting will be recorded and the recording will be placed on the website (except any part of the meeting from which the press and public are excluded). Young people are welcome to attend Council meetings however be aware that the public gallery is not a supervised area.



5. **Reports of the External Auditor**

To consider the reports of the external auditors, Ernst and Young:

- (a) Isle of Wight Pension Fund Audit Results Report 2022-23 (Pages 21 - 60)
- (b) Isle of Wight Pension Fund Audit Planning Report 2023-24 (Pages 61 - 100)
- (c) Value for Money Interim Report 2022-23 (Pages 101 - 128)

6. **Reports of the Chief Internal Auditor**

To receive and consider the reports of the Chief Internal Auditor:

- (a) Internal Audit Progress Report (Pages 129 - 150)
- (b) Internal Audit Plan 2024-25 (Pages 151 - 168)
- (c) Tax Evasion Policy (Pages 169 - 184)

7. **Treasury Management Strategy Annual Report** (Pages 185 - 214)

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

8. **Treasury Management Report (Q3)** (Pages 215 - 236)

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

9. **The Council's Risk Profile** (Pages 237 - 274)

To receive and approve the report of the Chief Executive.

10. **Chairman's Annual Report** (Pages 275 - 284)

To receive and note the report of the Chairman.

11. **Future Governance Arrangements:**

To receive and note the updates with regards to governance arrangements:

- (a) Future Governance - Progress Update (Pages 285 - 304)
- (b) Update on the Review of the Constitution (verbal)
- (c) Copy of the report to the Corporate Scrutiny Committee on Confidentiality (Pages 305 - 312)

12. **Workplan** (Pages 313 - 314)

To consider and note the committee's workplan.

13. **Members' Question Time**

Questions may be asked without prior notice, but to guarantee a full reply, a question must be submitted to Democratic Services no later than 10.00am, Thursday, 14 March 2024.

CHRISTOPHER POTTER  
Monitoring Officer  
8 March 2024

## 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 – Chris Potter on (01983) 821000, email [Chris.potter@iow.gov.uk](mailto:Chris.potter@iow.gov.uk), or Deputy Monitoring Officer - Justin Thorne on (01983) 821000, email [justin.thorne@iow.gov.uk](mailto:justin.thorne@iow.gov.uk).

---

## **Notice of recording**

Please note that all meetings that are open to the public and press may be filmed or recorded and/or commented on online by the council or any member of the public or press. However, this activity must not disrupt the meeting, and if it does you will be asked to stop and possibly to leave the meeting. This meeting may also be filmed for live and subsequent broadcast (except any part of the meeting from which the press and public are excluded).

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.

If you require further information please see the council guide to reporting on council meetings which can be found at <http://www.iwight.com/documentlibrary/view/recording-of-proceedings-guidance-note>

All information that is recorded by the council is held in accordance with the Data Protection Act 2018. For further information please contact Democratic Services at [democratic.services@iow.gov.uk](mailto:democratic.services@iow.gov.uk)



## Minutes

Name of meeting	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
Date and Time	<b>MONDAY 11 DECEMBER 2023 COMMENCING AT 10.00 AM</b>
Venue	<b>COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT</b>
Present	Cllrs A Garratt (Chairman), V Churchman (Vice-Chairman), K Lucioni, C Quirk and R Redrup
Also Present	Cllr J Bacon
	Emma Bruce, Jo Cooke, Barry Downer, Debbie Downer, Elizabeth Goodwin, Claire Massiter, Geraint Newton, Colin Rowland and Megan Tuckwell
Also Present (Virtual)	Alice Hadridge, Lesley Kinnear, Wendy Perera, Mel White Jason Jones (Ernst and Young)
Apologies	Cllr C Jarman

---

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

Cllr Claire Critchison was absent. Apologies had been received from Cllr Chris Jarman.

30. **Minutes**

RESOLVED:

THAT the minutes of the meeting held on 25 September 2023 be confirmed as a true record.

31. **Declarations of Interest**

Cllr Vanessa Churchman declared an interest as the Vice Chairman of the Isle of Wight Pension Fund Committee.

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

No public questions were received.

### 33. **Reports of the External Auditor, Ernst and Young**

#### 33a **External Audit Plan 2022-23 - Isle of Wight Council (Verbal)**

The External Auditors provided a verbal update on the progress with the external audit plan for the Isle of Wight Council 2022-23. It was advised that the external audit plan had not been issued as the guidance for 2022-23 local government audits had not yet been announced. Once released, there was an expectation that work would continue into a normal audit cycle from 2023-24. It was confirmed that value-for-money and pension fund audits were unaffected and were already underway. No comments or questions were raised at this stage and the update was received and noted.

RESOLVED:

THAT the verbal update be received and noted.

#### 33b **External Audit Plan 2022-23 - Isle of Wight Pension Fund**

The committee received the report of the External Auditors which provided an overview of the proposed approach and scope for the audit of the Isle of Wight Pension Fund for the year ended 31 March 2023. It was confirmed that the intention was to present the final audit results report to the committee at its meeting in March 2024. Discussion took place regarding the use of automated software and assurance was sought that accurate results were delivered, and that human oversight and controls were in place.

RESOLVED:

THAT the report be received and noted.

### 34. **Internal Audit Progress Report**

The Chief Internal Auditor presented the report which summarised the results of the audits finalised between September and December 2023, covering all completed audits for the 2023-24 year. The committee were satisfied with the report and questions were raised regarding future planning. It was confirmed that the internal auditors were already engaging with various service areas in planning for the 2024-25 audit cycle.

RESOLVED:

THAT the report be received and noted.

### 35. **Fraud, Irregularity and Whistleblowing Annual Report**

The Chief Internal Auditor presented the report which informed the committee of any incidents of fraud and irregularity experienced by the council from 1 April 2022 to 31 March 2023. Discussion took place regarding the number of instances of potential fraud. The committee confirmed they were satisfied that robust processes were in place which led to appropriate actions being taken.

Cllr Karen Lucioni declared an interest as a PA who received direct payments.

RESOLVED:

THAT the report be received and noted.

**36. Procurement Half-Yearly Report**

The committee received the report which provided a high-level overview of the council's procurement and contract monitoring activity from 1 April 2023 to 30 September 2023. Discussion took place regarding the number of waivers for children's services, mainland placements, short-term solutions, value for money, local community wealth building, and project management. Questions were raised regarding the length of time taken to procure a contract. It was confirmed that each instance was dependent on the nature and complexity of the contract being procured, and most were bound by compliance to good governance regulations.

RESOLVED:

THAT the report be received and noted.

**37. Treasury Management Report (Q2)**

Consideration was given to the report which provided an update on treasury management policies, practices, and activities from 30 March 2023 to 30 September 2023. Attention was drawn to updates around the lender's option borrower's option (LOBO) loans and the ongoing changes to the interest rates. The committee expressed its thanks to the Pension Fund and Treasury Management Accountant, and the team, for the work being undertaken.

RESOLVED:

THAT the performance for the six months to 30 September 2023 against the treasury management indicators be received and noted.

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

Consideration was given to the report which summarised the current position with regards to the council's strategic risks.

The chairman confirmed that he had attended a meeting of the Corporate Management Team to observe the discussion around risk and was satisfied that senior management takes risk seriously and addresses it appropriately in their deliberations.

It was confirmed that Strategic Risk 18, the ending of the children's services partnership with Hampshire County Council (and associated decoupling arrangements) would evolve into a new risk going forward as the exit arrangements were underway.

Questions were raised regarding the use of reserves to offset the significant financial pressures on adult social care and children's services, and whether mitigation processes were in place to avoid an ongoing structural deficit in future years. The Chief Executive advised that the pressures stemmed from increasing

demand, and a full update could be provided at the end of the financial year and when the local government financial settlement is announced in December. It was agreed that a response would be sought from the Section 151 Officer.

Discussion took place regarding schools at risk of financial deficit as a result of low pupil numbers, and the Cabinet Member for Children's Services, Education and Corporate Functions advised that discussions were already underway with the newly appointed Director of Children's Services. It was confirmed that a clear process was in place with the development of an outline plan and timeline of implementation by Easter 2024.

RESOLVED:

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

39. **Review of the Constitution (Verbal)**

The chairman advised that work was ongoing and there were no further updates aside from the work of the Future Governance Working Group.

RESOLVED:

THAT the report be received and noted.

40. **Future Governance Working Group**

The committee received the report and were asked to note the recommendations of the Future Governance Working Group, which proposed a move to a politically-proportionate Committee system from May 2024. The Cabinet Member for Children's Services, Education and Corporate Functions noted that any decision by the Full Council should only be an indicative, in principle decision, as insufficient detail had been provided at this stage, particularly in relation to the approach to the scrutiny function, the scheme of delegation to officers, public consultation, and financial implications. The chairman emphasised that it was incumbent on all members of the council to be fully informed on the process and its implications before making any decision.

RESOLVED:

THAT the recommendations to the Full Council be received and noted.

41. **Workplan**

Consideration was given to the committees workplan. The chairman confirmed that his annual report would be presented at the next meeting in March 2024, and he would endeavour to speak with members of the committee in developing the report. It was requested that the Monitoring Officer be asked to prepare a report for the next meeting in March 2024, should the Full Council agree to a move to a politically-proportionate Committee system.

RESOLVED:

THAT the workplan be received and noted.

**42. Members' Question Time**

Cllr Chris Jarman submitted a written question in relation to The Council's Risk Profile – Appendix 1 (MQ 14-23). The chairman provided a written response.

Cllr David Adams submitted a written question in relation to the disposal of council assets (MQ 15-23). The chairman provided a written response.

Cllr John Medland submitted a written question in relation to the disclosure of financial settlements (MQ 16-23). The chairman provided a written response.

Cllr Clare Mosdell submitted a written question in relation in relation to the funding for homes for Ukrainian refugees (MQ 17-23). The chairman provided a written response.

Cllr Peter Spink submitted a written question in relation to the disposal of land (MQ 18-23). The chairman provided a written response.

Cllr Vanessa Churchman asked an oral question regarding in relation to transparency and disclosures around council finances. The Strategic Director of Community Services advised that a certain level of a confidentiality is required while negotiations take place when the council operates in a commercial environment.

Cllr Vanessa Churchman asked an oral question regarding a residents concerns around the fee for a replacement concessionary bus pass. The Strategic Director of Community Services confirmed that a written response would be provided.

In relation to all questions which raised openness and transparency, the chairman indicated that a discussion at a future meeting on the council's obligations and aspirations could be helpful to the committee, and to all members.

CHAIRMAN

This page is intentionally left blank

**Audit and Governance Committee – 11 December 2023**

**Written question from Cllr Chris Jarman to the Audit and Governance Committee:**

Under item 10, appendix 1 "Lack of financial resource and the ability to deliver the council's in-year budget strategy.", the score is Medium. As there are at least two full budget proposals and also a number of potential amendments in preparation, is this Council confident of this assessment and that the resources are available to fully resource the work in progress?

***Response***

*On making enquiries, I have been assured that there is confidence in both the risk assessment and in the availability of resources.*

This page is intentionally left blank



**Audit and Governance Committee – 11 December 2023****Written question from Cllr David Adams to the Audit and Governance Committee:**

How many disposals of Council assets have occurred during this financial year, what is their aggregate value, and how many and of what aggregate value have not been fully (including value, terms, contract parties etc) publicly disclosed, and does this committee believe that hiding the terms of such disposals of Council (ie public) assets is open and transparent?

**Response**

*Under the current governance arrangements decisions with regard to disposal and use of council assets sit with the cabinet. I will pass this question through to the relevant Cabinet member to provide a detailed response as to the number and value of disposals.*

*On the general principle of openness and transparency, I would expect Isle of Wight Council to be operating in line with the government's "Local government transparency code". A link is <https://www.gov.uk/government/publications/local-government-transparency-code-2015>. I note also that the Local Government Association has published guidance at <https://www.local.gov.uk/our-support/research-and-data/data-and-transparency/local-transparency-guidance>. The code and guidance recognises the importance of disclosure of information to the public proactively and in response to enquiries. Both also recognise that information may be confidential and exempt and that there is a statutory basis for non-disclosure.*

*Once the Cabinet member has provided a response, it will be appropriate for this to be published.*

*\*Update: Response from the Deputy Leader Cabinet Member for Housing and Finance:*

*There have been three land disposals this financial year. They are:*

- Land at Atkinson Drive sold on the 3 May 2023 for £15,000: decision taken by Cllr Hutchinson 12/2/20. Decision published on ModGov ([here](#))*
- Ryde Harbour freehold transfer sold 31 October 2023 for a £1: decision taken by Cabinet 16/12/21. Decision published on ModGov ([here](#))*
- Plot C of the Christ the King site: completion date 23 November 2023. This was a transfer under statute hence there is no requirement for this decision to be published.*

*Given the decisions to dispose of land at both Atkinson Drive and Ryde Harbour are published on ModGov I believe the process to be transparent.*

This page is intentionally left blank

**Audit and Governance Committee – 11 December 2023****Written question from Cllr John Medland to the Audit and Governance Committee:**

How many financial settlements of disputes (separately incoming and outgoing) has this Council made during this and the last financial year, what is their aggregate value per year, and how many and of what aggregate value have not been fully (including value, terms, contract parties etc) publicly disclosed due to commercial confidentiality?

Does this committee believe that refusal to disclose the terms of such financial settlements involving disputes, contract failures etc is open and transparent?

***Response***

*There are two questions.*

*The first question requests information and I will ask the relevant Cabinet member to provide a response. Discussions at past meetings of Cabinet and Corporate Scrutiny Committee appear to be relevant to this question.*

*On the general principle of openness and transparency, I would expect Isle of Wight Council to be operating in line with the government's "Local government transparency code". A link is <https://www.gov.uk/government/publications/local-government-transparency-code-2015>*

*I note also that the Local Government Association has published guidance at <https://www.local.gov.uk/our-support/research-and-data/data-and-transparency/local-transparency-guidance>*

*The code and guidance recognises the importance of disclosure of information to the public proactively and in response to enquiries. Both also recognise that information may be confidential and exempt and that there is a statutory basis for non-disclosure.*

*Once the Cabinet member has provided a response, it will be appropriate for this to be published.*

*It may also help Cllr Medland to know that, some time ago, I discussed with both our external auditors the statutory basis for the extent to which financial information relating to disputes may be disclosed or not disclosed in the council's accounts. If it would be of assistance I would be happy to ask for a briefing note to be prepared.*

This page is intentionally left blank

**MQ 17/23****Audit and Governance Committee – 11 December 2023****Written question from Cllr Clare Mosdell to the Audit and Governance Committee:**

Although Audit Committee Members were told that the homes for Ukrainian refugees would be at zero cost to the Council, it would appear that a sum in excess of £800,000 has, or would be, drawn down as a loan to support and part fund this activity; is this true?

If it is true:

- Why was Audit Committee misled?
- What was the exact value of the loan?
- Was/is it to be supplied by Public Works Loan Board?
- What is the interest rate?
- How will repayments and interest be funded?

**Response**

*On reviewing the recording of the Corporate Scrutiny Committee on 7 November 2023, I am aware that there was discussion in relation to the funding allocated to support the development of refugee accommodation.*

*It seems that the QPMR2 capital report commentary caused some confusion and it was interpreted to suggest that the full grant was circa £2m, which needed to be match funded to the same amount by the council, which led to the assumption that the council would therefore need to borrow circa £2m to deliver the scheme. I am told that this is not the case.*

*I am told that the purchase of the 9 units of accommodation to support refugees on the Island is funded as follows:*

	<b>7 units of accommodation to support Ukrainian households</b>	<b>2 units of accommodation to support Afghan households</b>	
<i>Local Authority Housing Fund Grant</i>	£518,000	£306,000	
<i>Local Authority Housing Fund Grant</i>	£140,000	£40,000	
<i>Homes for Ukraine Grant</i>	£325,000	£0	
<i>IWC Capital (Cash)</i>		£55,000	
<b>Sub Total</b>	<b>£983,000</b>	<b>£401,000</b>	<b>£1,384,000</b>
<b>Borrowing required</b>	<b>£599,000</b>	<b>£251,000</b>	<b>£850,000</b>
<b>Total</b>	<b>£1,582,000</b>	<b>£652,000</b>	<b>£2,234,000</b>

*I am told that following the meeting, this information was shared with the Chair of Corporate Scrutiny and Cllr Mosdell as a direct response to the question.*

*The following has been kindly provided to me by officers.*

*At the Corporate Scrutiny Committee, the Section 151 Officer advised that borrowing provision exists in the capital budget for schemes where viability is established, where the borrowing would not have any ongoing impact on the council's revenue account. In the case for Ukrainian and Afghan Homes, the balance required from borrowing of £850,000 (after grant funding and a £55,000 cash contribution from the Council's Capital Programme) could be undertaken without it having an impact on the ongoing revenue position of the Council.*

*Borrowing provision exists in the capital budget for schemes where viability is established. This means that it has been assessed that there is sufficient funding from income streams, in this case net rent, to fund the total costs of borrowing, therefore having no ongoing net impact on the council's revenue account.*

*The loans from the PWLB will only be drawn down at the point that this is required. To date 5 of the properties have been purchased and the expenditure incurred has been set against the grant-based funding, therefore to date no PWLB loans have actually been drawn down. In practice, borrowing from the PWLB is undertaken at a Corporate level based on need as and when the Council's overall cashflow requires. Borrowing from the PWLB is not undertaken on a project-by-project basis.*

*When further expenditure for the remaining properties takes place, the remainder of the grant based funding will be utilised first and then the council's overall cash flow balances will be considered and if the council has sufficient cash balances then this will be utilised in the short term instead of taking the borrowing as this is more cost effective (i.e. the cost of borrowing long term is greater than the loss of interest from using temporary surplus cash balances, this practice is known as internal borrowing). At the time external borrowing is required the appropriate rates will be determined. At current rates of c. 5.2% for 50 year borrowing and allowing for some variation in this rate it is considered that net rental income is sufficient to fund the cost of borrowing and to ensure there will be no ongoing impact on the council's revenue position.*

**Audit and Governance Committee – 11 December 2023****Written question from Cllr Peter Spink to the Audit and Governance Committee:**

How much land (number and area) and which building assets has the Council disposed of or exchanged during this and the last financial years, what is their aggregate value per year, and how many and of what aggregate value have not been fully (including value, terms, contract parties etc) publicly disclosed, and does this committee believe that hiding the terms of such significant assets that could otherwise been used to provide Council rental properties at social rent levels is appropriate, open and transparent?

**Response**

*Under the current governance arrangements decisions with regard to disposal and use of council assets sit with the cabinet.*

*I will pass this question through to the relevant Cabinet member to provide a detailed response as to the number and value of disposals.*

*On the general principle of openness and transparency, I would expect Isle of Wight Council to be operating in line with the government's "Local government transparency code". A link is <https://www.gov.uk/government/publications/local-government-transparency-code-2015>*

*I note also that the Local Government Association has published guidance at <https://www.local.gov.uk/our-support/research-and-data/data-and-transparency/local-transparency-guidance>*

*The code and guidance recognises the importance of disclosure of information to the public proactively and in response to enquiries. Both also recognise that information may be confidential and exempt and that there is a statutory basis for non-disclosure.*

*Once the Cabinet member has provided a response, it will be appropriate for this to be published.*

This page is intentionally left blank



# Isle of Wight Pension Fund Audit results report

Year ended 31 March 2023

March 2024

Page 21



Building a Better  
working world

Agenda Item 5a



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

04 March 2024

Dear Committee Members

2022/23 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 and Governance Committee. We will update the Committee at its meeting scheduled for 18<sup>th</sup> March 2024 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2022/23 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, the exercise of professional judgement 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 and Governance Committee and management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 18<sup>th</sup> March 2024.

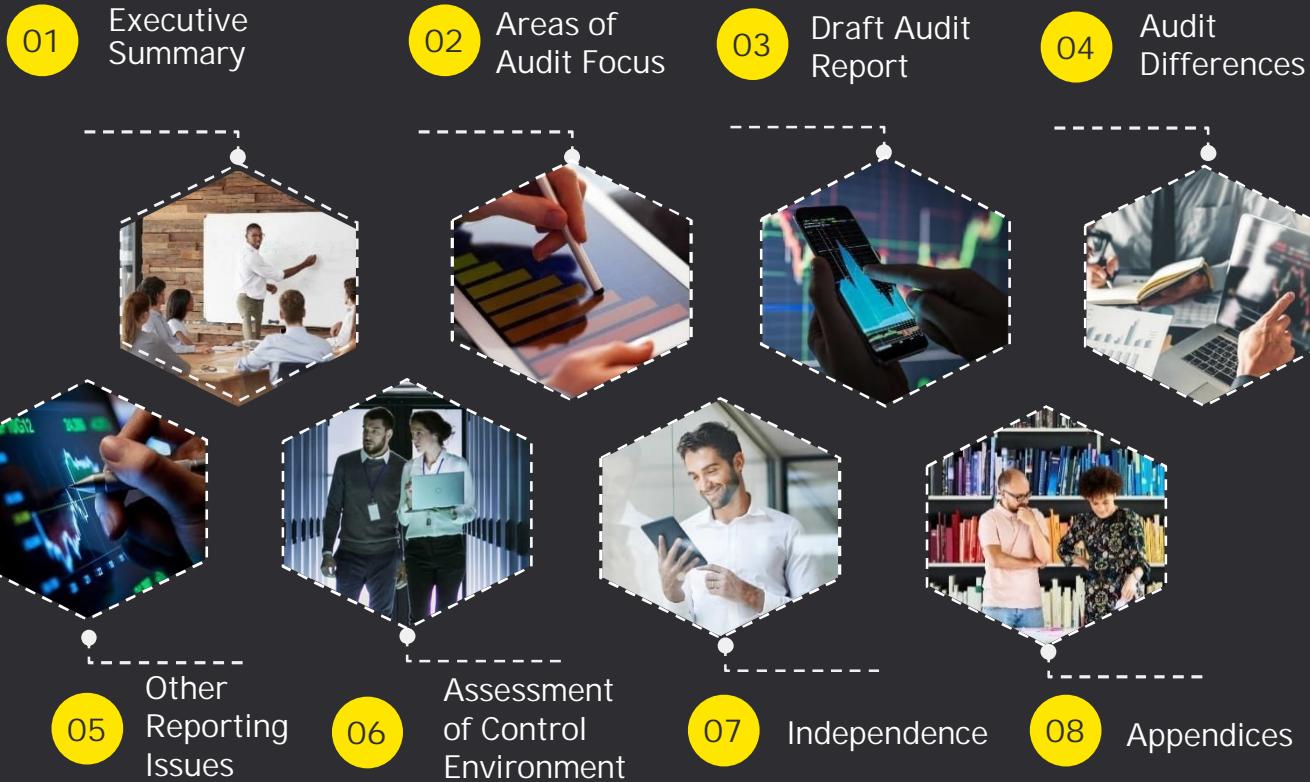
Yours faithfully

Kevin Suter, 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.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/psaa-statement-of-responsibilities-of-auditors-and-audited-bodies-up-to-2022-23/>). 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 from July 2021” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Governance Committee and management of Isle of Wight Council in accordance with our engagement letter. Our work has been undertaken so that we might state to the Audit and Governance 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 and Governance 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.





BOARDROOM

Page 24

# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report tabled at the 11 December 2023 Audit and Governance 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.

We have made no changes to our assessment of materiality subsequent to presenting our Audit Planning Report to you in December.

## Status of the audit

Our audit work in respect of the Pension Fund opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of circulating this report (4<sup>th</sup> March 2024).

- ▶ Final review and quality assurance checks of work done across our file.
- ▶ Final check of the amended financial statements.
- ▶ Receiving responses from management to our assurance letter request. This was requested in November and remains outstanding at the date of this report
- ▶ Update of our subsequent events procedures to the date of our opinion.
- ▶ Receipt of a signed letter of representation.

Page 25

Although our work is substantially complete we are not yet able to issue our opinion on the Pension Fund financial statements. As a result of national backlogs in the delivery of local government audits we have not yet been able to complete the audit of the 2022/23 financial statements of Isle of Wight Council as the administering authority for the Pension Fund. The Pension Fund accounts are consolidated into the audited accounts of Isle of Wight Council. Given we have not yet audited the 2022/23 accounts of Isle of Wight Council we are therefore unable to issue the audit opinion on the Pension Fund financial statements or certify that they are consistent with the version ultimately consolidated into the 2022/23 accounts of Isle of Wight Council. There is central work ongoing to help navigate this issue.

## Audit differences

If adjusted uncorrected judgmental differences were amended this would increase the current year net return on investments and the carrying value of investment assets by £1.565 million, which we note is significantly lower than our materiality level. We consider this further in Section 04 of our report.

# Executive Summary (cont'd)

## Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Isle of Wight Pension Fund. 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 explained within the 'Areas of Audit Focus' section of this report and summarised below.

Fraud risk	Findings & Conclusions
Misstatements due to fraud or error	<p>We carried out procedures to address fraud risks as set out in our Audit Plan, including testing journal entries and considering estimates for evidence of management bias. Using data analytics is central to our approach.</p> <p>We also performed a reconciliation between the fund manager reports and the custodian reports to address the risk of manipulation of asset valuations.</p> <p>We have no matters to bring to your attention.</p>
Significant risk	Findings & Conclusions
Valuation of level 3 investments	<p>We carried out procedures as set out in our Audit Plan to ensure that these investment valuations are supported and that estimation processes, including assumptions made, are materially accurate.</p> <p>We have completed our work in this area and have identified one judgemental uncorrected misstatement in relation to investments in Infrastructure. Further details are contained in Section 04 of our report.</p>
Inherent risk	Findings & Conclusions
IAS 26 – Actuarial present value of promised retirement benefits.	<p>We carried out procedures as set out in our Audit Plan 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.</p> <p>We have completed our work in this area and have no other matters to bring to your attention.</p>





# Executive Summary (cont'd)

## Control observations

We have not identified any significant deficiencies in the design or operation of an internal control based on procedures undertaken to date that might result in a material misstatement in your financial statements. We set out our detailed findings in Section 05 of this report.

## Independence

Please refer to Section 07 for our update on Independence. We have no issues we need to bring to your attention subject to completion of our audit procedures.



Page 28

## 02 Areas of Audit Focus



# Areas of Audit Focus

## Risk of misstatements due to fraud or error

### Fraud risk

#### What is the risk, and the key judgements and estimates?

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

Page 29

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.

#### What are our findings and 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.

#### Our response to the key areas of challenge and professional judgement

We will undertake our standard procedures to address fraud risk, which included:

- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.

We also performed mandatory procedures regardless of specifically identified fraud risks, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessing accounting estimates for evidence of management bias.
- Evaluating the business rationale for significant unusual transactions.

We utilised our data analytics capabilities to assist with our work.

We focused on ensuring that the investment valuations provided through the custodian and fund managers are appropriately journaled into the financial statements, where we have identified the opportunity and incentive for override to occur. We also:

- 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; and
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports.

# Areas of Audit Focus

## Valuation of Level 3 Investments

### Significant risk

What is the risk, and the key judgements and estimates?

Page 30

We consider the valuation of Level 3 investments to be of a higher degree of inherent risk due to the unobservable inputs making up the valuations. Significant judgements are made by the investment managers or administrators to value these investments whose prices are not publicly available..

The Fund's private debt and infrastructure investments are categorised as being at level 3 in the fair value hierarchy. This is due to the uncertainty associated with the valuation of such investments and the absence of a liquid market, meaning that the valuations are not based on observable inputs.

## Our response to the key areas of challenge and professional judgement

We:

- Agreed the population of investment assets accounted for in the financial statements to individual underlying fund manager valuation reports to 31/3/2023.
- Agreed the net asset value (NAV) of the level 3 investments appearing in the Fund's financial statements to underpinning audited financial statements supporting the investments as at 31/3/2023 where financial statements supporting valuation at this date were available. Where audited financial statements supporting the investments were not available at the net asset statement date we agreed the NAV in fund manager reports at 31/12/2022 to audited financial statements at that date. Further assurance was obtained as set out below.
- Obtained controls assurance reports from fund managers. Where these were not to 31/3/2023 we obtained bridging confirmation to 31/3/2023. One of the fund managers (Partners Group) does 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 at either 31/12/2022 or 31/3/2023 to ensure they were unqualified, had no other potentially relevant reporting points and were issued by a reputable auditor. Where relevant, we agreed the NAV of private equity investments to underpinning audited financial statements as at 31/12/2022 by applying the Fund's share-holder percentage to the value within the statements. Where audited financial statements were not available at 31/3/2023 we adjusted the 31/12/2022 (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 31/12/2022. 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.
- Tested and confirmed accounting entries have been correctly processed in the financial statements.

# Areas of Audit Focus

Valuation of Level 3 Investments (continued)

Significant risk

What are our findings and conclusions?

Page 31

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. We do note the relatively minor following issue.

The quarter 4 valuation for one Partner Group investments accounted for in the financial statements was £1.565 million lower than the bottom end of the range we created using relevant indices applied to other infrastructure investments as part of our work. The level of difference is greater than our reporting threshold of £346k, so we consider this to be an uncorrected judgmental difference.

Management has determined that no adjustments will be made to the financial statements as a result of this issue. We set out management's basis for this in Section 04 of this report.

# Areas of Audit Focus

IAS 26 – Actuarial present value of promised retirement benefits

Inherent risk

What is the risk, and the key judgements and estimates?

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.

What are our findings and conclusions?

We have completed our work in this area and have no matters to bring to your attention.

Our response to the key areas of challenge and professional judgement

We:

- Agreed the disclosure to the IAS 26 actuarial statement and reporting requirements.
- Engaged an auditor's specialist to review the IAS 26 calculation approach and comment on the underlying assumptions.
- Reviewed the work of the management specialist (Hymans Robertson, the actuary) and auditor's specialist.
- Considered the controls used by Hymans Robertson in undertaking the calculation.
- Performed IAS 19 liability roll-forward procedures for the largest scheduled body of the Fund, which give us assurance the assumptions have been correctly applied by the actuary.



# 03 Draft Audit Report



# Draft Audit Report

Draft audit report

Our opinion on the financial statements

▶ As at the time of writing we intend to issue an unqualified opinion on the 2022/23 Pension Fund financial statements. This remains subject to change as we have not yet issued an opinion on the 2022/23 financial statements of the administering authority accounts of Isle of Wight Council in which the Fund's accounts are consolidated. We therefore cannot fully conclude the Pension Fund audit.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ISLE OF WIGHT COUNCIL ON THE PENSION FUND'S FINANCIAL STATEMENTS

### Opinion

We have audited the Pension Fund ("the Fund") financial statements for the year ended 31 March 2023 under the Local Audit and Accountability Act 2014 (as amended). The pension fund financial statements comprise the Local Government Pension Scheme Fund Account, the Net Assets 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 2022/23.

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 2023 and the amount and disposition at that date of the its assets and liabilities as at 31 March 2023; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

### 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 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 xx 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 authority's ability to continue as a going concern.

### Other information

The other information comprises the information included in the Statement of Accounts 2022/23, 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 2022/23.

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.

# Draft Audit Report

Draft audit report

Our opinion on the financial statements

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);
- 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 xx, 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 2022/23, 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 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 and Support Services.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.

# Draft Audit Report

Draft audit report

Our opinion on the financial statements

- We understood how the Fund is complying with those frameworks by making enquiries of the management. We corroborated this through our reading of the Pension Fund Committee minutes, through enquiry of employees to confirm Pension policies, and through the inspection of employee handbooks and other information.
- 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 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 Fund has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud.
- 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.
- As part of our work on journals we also:
  - 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; and

- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports.
- The 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 where appropriate, 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.

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.

## 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 adjusted differences

We are required to highlight misstatements greater than our tolerable error of £6.9m which have been corrected by management that were identified during the course of our audit. There were no misstatements of this nature to draw to your attention, subject to completion of our final audit procedures.

## Uncorrected misstatements

We are required to highlight uncorrected misstatements above our reporting threshold of £2.7 million. The Audit and Governance Committee should consider management's reasons for not adjusting the financial statements.

The quarter 4 valuation for one Partners Group investment accounted for in the financial statements was £1.565m million less than the bottom end of the range we created using relevant indices applied to other infrastructure investments as part of our work. The level of difference is greater than our reporting threshold of £346k, so we consider this to be an uncorrected judgmental difference. This is the only unadjusted misstatement subject to completion of our final audit procedures.

Management has determined that no adjustments will be made to the financial statements as a result of this issue. Its basis for this is as follows:

- ▶ Although the 31 March 2023 of the investment valuation is unaudited, the same process is applied when valuing the portfolio whether for monthly, quarterly or annual valuations. The external auditors of the Partners Group fund have oversight of the process, consider the design and control of the valuation work on an annual basis and issue a controls assurance report. The valuation process includes an independent valuation review aiming to verify the underlying reported and evidence that deviations between fund reports and other third party data are followed up appropriately and their resolution documented. To support this Partners Group's Product Management team systematically screen a broad set of sources and review market-related publications and news providers for information about its underlying investments on a regular basis. This information is then used to develop client reports and is considered during the valuation process to assess fair market values. The external auditor of Partners Group have commented that this review is integral to the firm's operational and investment management processes.
- ▶ It is difficult to identify a market index, which can be inherently volatile, specific to the circumstances of a given investment.
- ▶ The Pension Fund's stated accounting policy is to ensure consistency between the financial statements and the valuation reports received from its fund managers.

We consider the reasons given by management for not adjusting to be reasonable. If the Audit and Governance Committee agree with management's reasons for not adjusting, the basis for this will need to be set out in the letter of management representation and signed by the Director of Finance and Chair of the Committee. Draft text for the letter of management representation is included at Appendix B.



05

# Other Reporting Issues



# Other Reporting Issues

## Consistency of other information published with the financial statements

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Isle of Wight Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23. We are not yet able to do this as we have not completed the audit of Isle of Wight Council's 2022/23 financial statements.

## 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 had no reason to exercise these duties subject to completion of our final audit procedures.

## 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 had no matters to report subject to completion of our final audit procedures.

# Other Reporting Issues

## ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement

ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:

- Risk Assessment
- Understanding the entity's internal control
- Significant risk
- Approach to addressing significant risk (in combination with ISA 330)

The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:

- Drive consistent and effective identification and assessment of risks of material misstatement
- Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')
- Modernise ISA 315 to meet evolving business needs, including:
  - how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and
  - how auditors understand the entity's use of information technology relevant to financial reporting.
- Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.

We set out the findings and conclusions from our work to implement ISA 315 in the table below.

### Audit Procedures

We performed the following procedures:

We obtained an understanding of the IT processes related to the IT applications of the Fund. The Fund has two relevant IT applications for the purposes of ISA 315 risk assessment.

- We performed procedures to determine if there are typical controls missing or control deficiencies identified and evaluated the consequences for our audit strategy.
- When we have identified controls relevant to the audit that are application controls or IT-dependent manual controls where we do not gain assurance substantively, we performed additional procedures.
- We reviewed the following processes for all relevant IT applications:
  - Manage vendor supplied changes
  - Manage security settings
  - Manage user access
  - Manage entity-programmed changes
  - Job scheduling and managing IT process

### Audit findings and conclusions

No significant issues were identified in our review of the various processes, including the design and implementation effectiveness of relevant controls around the financial statement close process. We have not tested the operation of any controls through this review.



06

# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

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.

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 internal control to bring to your attention subject to completion of our final audit procedures.



07

# Independence



# Relationships, services and related threats and safeguards

## Relationships

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 2022 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 to us in relation to the year ended 31 March 2023 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.

	Current Year 2022/23	Prior Year 2021/22
	Proposed fee £	£
Scale Fee - Code work	22,523	16,235
Scale Fee Variation: rebasing - see Note 1	23,427	29,715
Valuation of level 3 investments: see Note 2	5,321	7,218
IAS 19 standard work - see Note 2	n/a	1,000
Additional core fees for ISA 540 - see Note 2	1,899	1,899
IAS 26 disclosures - see Note 2	925	n/a
IAS 19 triennial valuation - see Note 3	n/a	8,777
ISA 315 enhanced requirements - see page 21	2,941	n/a
<b>Total fees</b>	<b>57,036</b>	<b>64,844</b>

# Independence

## Services provided by Ernst & Young (continued)

Note 1 – In order to meet regulatory and compliance audit requirements not present at the time of PSAA awarding the audit contract, we assessed that the recurrent cost of additional requirements to carry out our 2021/22 audit should increase by £29,715. While PSAA have increased the scale fee in 2022/23, we still need to undertake the same work to the level underpinning our rebasing request. Therefore, will expect to submit a rebasing request similar to those in previous years, to request a rebased fee level of £45,950. The final fee for 2021/22 is yet to be determined by PSAA. We will also charge additional fee for work to comply with the enhanced requirements of ISA (UK) 315 (Revised), the testing of Level 3 Investment Assets and IAS 19 standard work. We will report our final proposed scale fee variation on full completion of our work.

Note 2 – For 2022/23, 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 proposed final fee include:

- ▶ Additional work required to audit level 3 investment assets, see section 2 for further details.
- ▶ Additional fee for changes in audit requirements: ISA 540 (estimates) communicated by PSAA. Our proposed fee is at the lower end of PSAA's communicated range
- ▶ Additional work to audit IAS 26 disclosures. We were not able to access the detailed models of the actuaries in order to evidence the requirements of the auditing standards and therefore engaged our internal Pension Consulting team to provide us with a range estimate in order for us to gain the appropriate assurances over management's estimate. We leveraged from this work to gain assurance over the Pension Fund's IAS 26 disclosures. See section 2 for further details
- ▶ Additional work performed to address requirements of ISA 315 which is effective from 2022/23, see section 5 for further details.

Note 3 – Additional fee for the IAs19 triennial valuation work was incurred during 2021/22, this will not be required again until the next triennial valuation as at March 2025.

Fees for both years are subject to determination by PSAA.

## 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 2023:

[ey-uk-2023-transparency-report.pdf](#)



Page 47

# 08 Appendices



# Appendix A - Required communications with the Audit Committee

## Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees 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.	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. 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, December 2023 meeting of the Audit and Governance Committee.
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	This Audit Results Report, to be presented at the March 2024 meeting of the Audit and Governance Committee.

# Appendix A - Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty related to going concern</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The appropriateness of related disclosures in the financial statements</li> </ul>	This Audit Results Report, to be presented at the March 2024 meeting of the Audit and Governance Committee.
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	This Audit Results Report, to be presented at the March 2024 meeting of the Audit and Governance Committee.
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:                             <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud</li> <li>• Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	This Audit Results Report, to be presented at the March 2024 meeting of the Audit and Governance Committee.

# Appendix A - Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>	<p>This Audit Results Report, to be presented at the March 2024 meeting of the Audit and Governance Committee.</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>This Audit Results Report, to be presented at the March 2024 meeting of the Audit and Governance Committee.</p>
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	<p>This Audit Results Report, to be presented at the March 2024 meeting of the Audit and Governance Committee.</p>

# Appendix A - Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> </ul>	This Audit Results Report, to be presented at the March 2024 meeting of the Audit and Governance Committee.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit.</li> </ul>	This Audit Results Report, to be presented at the March 2024 meeting of the Audit and Governance Committee.
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>• Written representations we are requesting from management and/or those charged with governance</li> </ul>	This Audit Results Report, to be presented at the March 2024 meeting of the Audit and Governance Committee.
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	This Audit Results Report, to be presented at the March 2024 meeting of the Audit and Governance Committee.
Auditors report	<ul style="list-style-type: none"> <li>• Key audit matters that we will include in our auditor's report</li> <li>• Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	This Audit Results Report, to be presented at the March 2024 meeting of the Audit and Governance Committee.



# Appendix B – Draft management representation letter

## Draft management representation letter

The draft letter below sets out the management representations received at the time of writing and remains subject to potential change.

## Management Rep Letter

Kevin Suter  
Partner  
Ernst & Young  
1 More London Place  
London  
SE1 2AF

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 2023. 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 1 April 2022 to 31 March 2023 and of the amount and disposition of the Fund’s assets and liabilities as at 31 March 2023, 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 2022/23.

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:

### 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 2022/23.
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 2022/23, and are free of material misstatements, including omissions. We have approved the financial statements.
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 2022/23 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.



# Appendix B – Management representation letter

## Management representation letter

The draft letter below sets out the management representations received at the time of writing and remains subject to potential change.

## Management Rep Letter

6. 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 and brought to our attention by the auditor because *[specify reasons for not correcting misstatement]*

### 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 noncompliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.

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.

2. You have been informed of all changes to the Fund rules.

# Appendix B – Management representation letter

## Management representation letter

The draft letter below sets out the management representations received at the time of writing and remains subject to potential change.

## Management Rep Letter

6. 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 and brought to our attention by the auditor because [specify reasons for not correcting misstatement]

### 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 noncompliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.

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.

2. You have been informed of all changes to the Fund rules.

# Appendix B – Management representation letter

## Management representation letter

The draft letter below sets out the management representations received at the time of writing and remains subject to potential change.

## Management Rep Letter

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 members of the management of the Fund and committees of members of the management of the Fund, or summaries of actions of recent meetings for which minutes have not yet been prepared, held throughout 2022/23 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 confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.

7. 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.

8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

9. 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 2022/23.

10. From the date of our last management representation letter at 25 September 2023 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.

# Appendix B – Management representation letter

## Management representation letter

The draft letter below sets out the management representations received at the time of writing and remains subject to potential change.

## 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 28 to the financial statements all guarantees that we have given to third parties.

### E. Subsequent Events

1. Other than as described in Note 6 to 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.

### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the annual report, other than the financial statements, the auditor's report and the statement about contributions.

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

### G. Advisory reports

1. We have not commissioned any advisory reports which may affect the conduct of your work in relation to the Fund's financial statements and schedule of contributions/payment schedule.

### H. Independence

1. As members of management of the Fund, we are not aware of any matters which would render Ernst & Young LLP ineligible to act as auditor to the Fund.

### I. Derivative Financial Instruments and Pooling investments, including the use of collective investment vehicles and shared services

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

2. 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.

### J. Actuarial valuation

1. The latest report of the actuary Hymans Robertson as at 31 March 2022 and dated 28 March 2023 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 his report.

# Appendix B – Management representation letter

## Management representation letter

The draft letter below sets out the management representations received at the time of writing and remains subject to potential change.

## Management Rep Letter

### K. . Estimates

#### Private Debt and Infrastructure Asset Valuation Estimate

1. We confirm that the significant judgments made in making the Private Debt and Infrastructure Asset Valuation 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 Private Debt and Infrastructure Asset Valuation.
3. We confirm that the significant assumptions used in making the Private Debt and Infrastructure Asset Valuation 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 2022/23.
5. We confirm that appropriate specialized skills or expertise has been applied in making the Private Debt and Infrastructure Asset Valuation.
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.

#### Estimation of IAS26 present value of promised retirement benefits

1. We confirm that the significant judgments made in making the IAS26 estimate have taken into account all relevant information and the effects of the COVID-19 pandemic on the present value of promised retirement benefits 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 IAS26 estimate of the present value of promised retirement benefits.
3. We confirm that the significant assumptions used in making the IAS 26 estimate of the present value of promised retirement benefits appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty and the effects of the COVID-19 pandemic on the valuation of the present value of promised retirement benefits are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.
5. We confirm that appropriate specialized skills or expertise has been applied in making the valuation of the present value of promised retirement benefits.
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.



# Appendix B – Management representation letter

## Management representation letter

The draft letter below sets out the management representations received at the time of writing and remains subject to potential change.

## Management Rep Letter

### L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the actuarial present value of promised retirement benefits 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.

### M. Going concern

1. Based on our assessment of going concern, the details of which have been shared with you, we confirm that we are not aware of any material uncertainties related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. We do not intend to wind up the Fund. We are satisfied that the use of the going concern basis of accounting is appropriate in the preparation and presentation of the financial statements.

### N. 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 the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, aligned with the statements we have made in the other information or other public communications made by us.

Yours faithfully,

\_\_\_\_\_  
Chris Ward, Director of Finance

\_\_\_\_\_  
Councillor Andrew Garratt, Chairman of the Audit and Governance Committee



## EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](https://ey.com).

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

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

© 2022 Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

JKC-024050 (UK) 07/22. Creative UK.

ED None

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

[ey.com/uk](https://ey.com/uk)

This page is intentionally left blank

# Isle of Wight Pension Fund Audit planning report

Year ending 31 March 2024  
28 February 2024

Page 61



Building a Better  
working world

Agenda Item 5b

28 February 2024



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

Dear Audit and Governance Committee Members

### **Audit planning report**

Attached is our audit planning report for the forthcoming meeting of the Audit and Governance Committee. The purpose of this report is to provide the Audit and Governance Committee of Isle of Wight Pension Fund (the Fund) with a basis to review our proposed audit approach and scope for the 2023/24 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Audit and Governance Committee's service expectations.

This report summarises our initial assessment of the key risks driving the development of an effective audit for the Fund. We have aligned our audit approach and scope with these.

The Audit and Governance Committee, as the Fund's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Fund's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done it will impact the level of resource needed to discharge our responsibilities.

We draw Audit and Governance Committee members and officers attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix A).

(continued)

This report is intended solely for the information and use of the Audit and Governance Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties. We welcome the opportunity to discuss this report with you on 18 March 2024 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

Enc



# Contents

01

Overview of our 2023/24 audit strategy



02

Audit risks



03

Audit materiality



04

Scope of our audit



05

Audit team



06

Audit timeline



07

Independence



08

Appendices



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>). 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.psa.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 and Governance Committee and management of Isle of Wight Pension Fund**. Our work has been undertaken so that we might state to the **Audit and Governance 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 and Governance 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.





Page 65

BOARDROOM

# 01

# Overview of our 2023/24 audit strategy

# Overview of our 2023/24 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year. We continue to assess risk throughout the audit. We will bring any changes in our risk assessment to the attention of the Audit and Governance Committee.

## Audit risks and areas of focus

Page 66

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	<p>As identified in ISA 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 would otherwise appear to be operating effectively. We have not identified anything specific to Isle of Wight Pension Fund on this risk.</p> <p>In the prior year we identified the risk of manipulation of investment income and valuation as the most likely way management would seek to override controls and presented this as a specific fraud risk. We continue to consider this to be the most likely way management will override controls, but will address this through the mandatory journal testing we undertake to address the generic risk of misstatements due to fraud and error.</p>
Valuation of Level 3 investments	Significant risk	No change in risk or focus	<p>We consider the valuation of Level 3 investments to be a significant risk due to the unobservable inputs making up the valuations. Significant judgements are made by the investment managers or administrators to value these investments whose prices are not publicly available.</p> <p>The Fund's private debt and infrastructure investments are categorised as being at Level 3 in the fair value hierarchy. This is due to the uncertainty associated with the valuation of such investments where the valuations are not based on observable inputs.</p>
IAS 26 - Actuarial present value of promised retirement benefits	Inherent risk	No change in risk or focus	<p>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.</p>

# Overview of our 2023/24 audit strategy

## Materiality

### Planning materiality

**£6.911m**

Materiality for the Fund has been set at £6.911m, which represents 1% of net assets in the draft 2022/23 financial statements. We consider net assets, to be the appropriate basis of materiality for the Fund due to the scale and interest to users of the financial statements. This is the same basis as that used in the prior year.

### Performance materiality

**£5.183m**

Performance materiality has been set at £5.183m, which represents 75% of materiality. This is consistent with the prior year. Our assessment reflects the strong control environment present at the Fund and our expectation of a relatively low level of misstatements based on results from previous audits.

### Audit differences

**£0.345m**

We will report all uncorrected misstatements relating to the primary statements (fund account and net asset statement) greater than £0.345m. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Governance Committee.





# Overview of our 2023/24 audit strategy

## Audit scope

This Audit planning report covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of the Fund give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2024 and the amount and disposition at that date of its assets and liabilities for 2023/24.
- ▶ Our opinion on the consistency of the Fund financial statements within the Fund annual report with the published financial statements of Isle of Wight Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Fund.

Taking the above into account, and as articulated in this Audit planning report, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to those risks. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". Therefore to the extent any of these or any other risks are relevant in the context of the Fund's audit, we set those within this Audit planning report and we will continue to discuss these with management as to the impact on the scale fee.

### ***Effects of climate-related matters on financial statements***

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to the Fund. It is, nevertheless, important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

### ***Audit scope and approach***

We intend to take a substantive audit approach.

Page 6 of 9



# Overview of our 2023/24 audit strategy

## Audit team

The audit will be led by Kevin Suter as the partner in charge for 2023/24. Kevin will be supported by Rumana Rafiq Ullah, manager, and Dean Vinas, lead senior. See Section 05 for further details of the audit team and the areas where management and EY specialists are expected to provide input for the current year audit.

## Timeline

Details of the planned timeline for delivery of the audit are set out in Section 06. We expect to have fully completed our risk assessment and work to walkthrough the Fund's key systems and processes, including work to comply with the enhanced requirements of ISA (UK) 315 (Revised), by the end of March 2024. Our detailed testing of balances and disclosure in the financial statements is expected to be complete by the end of July 2024, however our reporting and presentation to you of our final audit results report is yet to be confirmed as we need to take into account the **Department for Levelling-up, Housing and Communities (DLUHC)** and **Financial Reporting Council (FRC)** measures to address local audit delays, and the associated impact on the Council and Pension Fund audits.






## 02 Audit risks

# Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.



## 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.

### What will we do?

We will undertake our standard procedures to address fraud risk, which include:

- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.

Performing mandatory procedures regardless of specifically identified fraud risks, including:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- ▶ Assessing accounting estimates for evidence of management bias.
- ▶ Evaluating the business rationale for significant unusual transactions.

We will utilise our data analytics capabilities to assist with our work.

We will include a focus on ensuring that the investment valuations provided through the custodian and fund managers are appropriately journaled into the financial statements, where we have identified the opportunity and incentive for override to occur.

# Our response to significant risks (cont'd)



## Valuation of Level 3 investments

### What is the risk?

We consider the valuation of Level 3 investments to be of a higher degree of inherent risk due to the unobservable inputs making up the valuations. Significant judgements are made by the investment managers or administrators to value these investments whose prices are not publicly available.

The Fund's private debt and infrastructure investments are categorised as being at Level 3 in the fair value hierarchy.

### What will we do?

We will:

- ▶ Agree the valuation of Level 3 investments appearing in the financial statements to valuation reports from the fund managers.
- ▶ Assess the competence of management experts (fund managers), including obtaining and reviewing internal control reports for fund managers to identify any internal control issues and assessing whether these would have an impact on the valuations provided.
- ▶ Obtain audited financial statements of the investments. Where audited financial statements supporting the investments are not available as at 31 March 2024 we will undertake alternative procedures to gain further assurance over the valuation reported in the financial statements.
- ▶ Test accounting entries have been correctly processed in the financial statements.

# Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

## What is the risk/area of focus, and the key judgements and estimates?

### IAS 26 (inherent risk)

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.

## Our response: Key areas of challenge and professional judgement

We will:

- ▶ Agree the disclosure to the IAS 26 actuarial statement and reporting requirements.
- ▶ Engage auditor's specialists to review the IAS 26 calculation approach and comment on the underlying assumptions.
- ▶ Review the work of the management specialist (the actuary) and auditor's specialist.





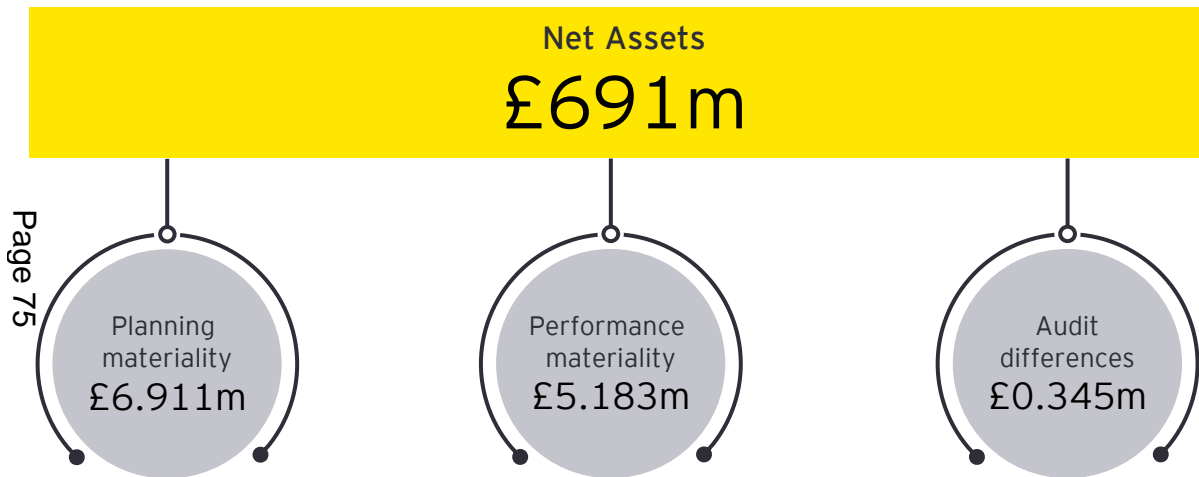
## 03 Audit materiality



# Materiality

## Fund Materiality

For planning purposes, materiality for 2023/24 has been set at £6.911m. This represents 1% of the Fund's net assets in the draft 2022/23 financial statements. We consider net assets to be the appropriate basis of materiality for the Fund due to the scale and interest to users of the financial statements. We have provided supplemental information about audit materiality in Appendix D.



Page 75

We request that the Audit and Governance Committee confirm their understanding of, and agreement to, these materiality and reporting levels.

## Key definitions

**Planning materiality** – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at 75% of planning materiality. This is based on our expectation of few misstatements for the audit.

**Audit difference threshold** – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount.

Other uncorrected misstatements, such as reclassifications and misstatements in the disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Audit and Governance Committee, or are important from a qualitative perspective.



# 04 Scope of our audit

# Audit process and strategy

## Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

### Financial statement audit

Our opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2024 and the amount and disposition at that date of its assets and liabilities for 2023/24; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Consistency statement:

- Our opinion on the consistency of the Fund financial statements within the Fund annual report with the published financial statements of Isle of Wight Council.

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements.

### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

# Audit process and strategy

## Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls;
- ▶ Substantive tests of detail of transactions and amounts;
- ▶ Reliance on the work of other auditors where appropriate; and
- ▶ Reliance on the work of experts in relation to areas such as disclosures based on actuarial reports.

Our initial assessment of the key processes across the Fund has not identified any processes where we will seek to test key controls, either manual or IT. Our audit strategy will, as in previous years, follow a fully substantive approach. This will involve testing the figures within the financial statements rather than looking to place reliance on the controls within the financial systems. We assess this as the most efficient way of carrying out our work and obtaining the level of audit assurance required to conclude that the financial statements are not materially misstated.

Page 78

### *Analytics*

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Governance Committee.

### *Internal audit*

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, where they raise issues that could have an impact on the financial statements.





Page 7

# 05 Audit team



# Audit team

## Audit team structure :

Kevin Suter  
Lead Audit Partner



Rumana Rafiq Ullah  
Manager



Dean Vinas  
Lead Senior



# Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where management and EY specialists are expected to provide input for the current year audit are:

Area	Specialists
IAS 26 disclosure	Management Specialist - Hymans Robertson EY Specialist - PwC as consulting actuary and EY Pensions

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable
- ▶ Assess the reasonableness of the assumptions and methods used
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements



06

# Audit timeline



# Timetable of communication and deliverables

## Timeline

Below is a draft timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2023/24.

From time to time matters may arise that require immediate communication with the Audit and Governance Committee and we will discuss them with the Audit and Governance Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	2024 Timetable	Deliverables
Planning: Risk assessment and setting of scopes	January	This audit planning report to be presented to the 18 March 2024 meeting of the Audit and Governance Committee.
Walkthrough of key systems and processes	January	
Execution of audit procedures on the financial statements	June - July	
Audit Completion procedures	July *	Draft audit results report shared with management and, in turn, the Audit and Governance Committee.
Audit Conclusion	August - November *	Audit opinion and completion certificates.

Page 83

\* The final timetable is yet to be confirmed as we need to take into account the Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays, and the consequent impact on the Council and Pension Fund audits.



# 07

# Independence



# Introduction

The FRC Ethical Standard and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

## Required communications

### Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence.

### Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

# Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below (where applicable) to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

## Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kevin Suter, your audit engagement partner, and the audit engagement team have not been compromised.

## Self interest threats

A self interest threat arises when EY has financial or other interests in the Fund. Examples include where we have an investment in the Fund; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, there are no non-audit fees associated with Isle of Wight Pension Fund. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self interest threats at the date of this report.

## Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

## Management threats


Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

## Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.



# Other communications

## EY Transparency Report 2023

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 period ended 30 June 2023 and can be found here: [EY UK 2023 Transparency Report](#).





# 08 Appendices



# Appendix A – PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the Fund complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Fund should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

## **Preparation of the statement of accounts**

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
  - ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.
- Page 89 assign responsibilities clearly to staff with the appropriate expertise and experience;
- provide necessary resources to enable delivery of the plan;
- maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;
- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;
  - ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and
  - during the course of the audit provide responses to auditor queries on a timely basis.

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.



# Appendix B – Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

As part of our reporting on our independence, we set out here a summary of the expected fees for the year ended 31 March 2024.

Scale fee variations are agreed when we incur work in addition to the planned level of work built into the scale fee.

For the Isle of Wight Pension Fund audit, whilst we believe that the current scale fee reflects the changes in the audit market and increases in regulation since the most recent PSAA tender exercise, we still expect to agree a minimal scale fee variation with management and PSAA for the 2023/24 audit, as per the Notes to the fee table below.

	Current Year 2023/24	Prior Year 2022/23
	Proposed fee £	Proposed fee £
Scale Fee - Code work	71,889	22,523
Scale Fee Variation - see <b>Note 1</b>	-	23,427
<b>Requested rebased fee sub-total</b>	<b>71,889</b>	<b>45,950</b>
Valuation of Level 3 investments - see Note 2	-	7,000
IAS 19 standard work - see Note 2	-	1,000
Additional core fees for ISA 540	-	1,900
IAS 19 triennial valuation - see Note 2	-	-
ISA 315 enhanced requirements - see Note 3	TBC	TBC
<b>Total fees</b>	<b>71,889</b>	<b>55,850</b>

*All fees exclude VAT*

**Note 1** - In order to meet regulatory and compliance audit requirements not present at the time of PSAA awarding the audit contract for audits up to and including the 2022/23 financial year, we assessed that the recurrent cost of additional requirements to carry out our 2022/23 audit should increase by £23,427. Therefore, we will expect to submit a rebasing request for 2022/23 similar to those in previous years, to request a rebased fee level of £45,950. This does not apply for 2023/24.

**Note 2** - For 2022/23 we have included an initial estimate of the planned fee, as the audit is yet to be completed.

**Note 3** - We expect the implementation of ISA315 (Revised) to require additional work to meet the enhanced requirements. We are unable to provide an estimate at this time, and confirm this is not built into the PSAA's scale fee for either year. The key impacts and changes were communicated within our 2022/23 audit plan.

# Appendix C – Required communications with the Audit and Governance Committee

We have detailed the communications that we must provide to the Audit and Governance Committee.

## Our Reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit and Governance 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	<p>Communication of:</p> <ul style="list-style-type: none"> <li>▶ The planned scope and timing of the audit</li> <li>▶ Any limitations on the planned work to be undertaken</li> <li>▶ The planned use of internal audit</li> <li>▶ The significant risks identified</li> </ul> <p>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.</p>	Audit planning report - March 2024
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report - July 2024

# Appendix C – Required communications with the Audit and Governance Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report - July 2024
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report - July 2024
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Governance committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements</li> </ul>	Audit results report - July 2024
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Governance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:                             <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit and Governance Committee responsibility</li> </ul>	Audit results report - July 2024

# Appendix C – Required communications with the Audit and Governance Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures;</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report - July 2024
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report - March 2024</p> <p>Audit results report - July 2024</p>



# Appendix C – Required communications with the Audit and Governance Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report - July 2024
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ Enquiry of the Audit and Governance 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 and Governance Committee may be aware of</li> </ul>	Audit results report - July 2024
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report - July 2024
Representations	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report - July 2024
Material inconsistencies and misstatements	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report - July 2024
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report - July 2024
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit planning report - March 2024 Audit results report - July 2024

# Appendix D – Additional audit information

## Regulatory update

Our objective is to form an opinion on the Fund's financial statements under International Standards on Auditing (UK) as prepared by you in accordance with International Financial Reporting Standards as adopted by the UK, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit and Governance Committee. The audit does not relieve management or the Audit and Governance Committee of their responsibilities.

## Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards, company law and other regulations. We outline the procedures below that we will undertake during the course of our audit.

### Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- ▶ Obtaining sufficient appropriate audit evidence to express an opinion on the financial statements. Reading other information contained in the financial statements, the Audit and Governance Committee reporting appropriately addresses matters communicated by us to the Audit and Governance committee and reporting whether it is materially inconsistent with our understanding and the financial statements
- ▶ Maintaining auditor independence

# Appendix D – Additional audit information (cont'd)

## Other required procedures during the course of the audit

### Procedures required by the Audit Code

- ▶ Discharging our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice
- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements.

We have included in Appendix C a list of matters that we are required to communicate to you under professional standards.

## Purpose and evaluation of materiality

Page 96 For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

# Appendix E - Non-Compliance with Laws and Regulations (NOCLAR)

## Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

### Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

### Auditor Responsibilities

[The International Ethics Standard Board of Accountants' International Code of Ethics \(IESBA Code\)](#) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

Page 97

## Examples of Non-Compliance with Laws and Regulations (NOCLAR)

### Matter

- ▶ Suspected or known fraud or bribery
- ▶ Health and Safety incident
- ▶ Payment of an unlawful dividend
- ▶ Loss of personal data
- ▶ Allegation of discrimination in dismissal
- ▶ HMRC or other regulatory investigation
- ▶ Deliberate journal mis-posting or allegations of financial impropriety
- ▶ Transacting business with sanctioned individuals

### Implication

- ▶ Potential fraud/breach of anti-bribery legislation
- ▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
- ▶ Potential breach of Companies Act 2006
- ▶ Potential GDPR breach
- ▶ Potential non-compliance with employment laws
- ▶ Suspicion of non-compliance with laws/regulations
- ▶ Potential fraud / breach of Companies Act 2006
- ▶ Potential breach of sanctions regulations



# Appendix E - Non-Compliance with Laws and Regulations (NOCLAR) (cont'd)

## What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years



### Management response:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with the auditors

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

### Key Reminders:

- ▶ Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- ▶ Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- ▶ Engage external specialists where needed
- ▶ Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- ▶ Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

### Audit response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

## EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](https://ey.com).

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

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

© 2022 Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

UJKC-023026 (UK) 04/22. Creative UK.

ED None

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

[ey.com](https://ey.com)

This page is intentionally left blank



# Isle of Wight Council

## Value for Money Interim Report

Year ended 31 March 2023

28 February 2024

Page 101

Agenda Item 5c





Members of the Audit and Governance Committee  
Isle of Wight Council  
County Hall  
High Street  
Newport, Isle of Wight  
PO30 1UD

28 February 2024

Dear Audit and Governance Committee Members

2022/23 Value for Money Report

We are pleased to attach our interim commentary on the Value for Money (VFM) arrangements for Isle of Wight Council. This commentary explains the work we have undertaken during the year and highlights any significant weaknesses identified (of which there are none) along with recommendations for improvement. The commentary covers our interim findings for audit year 22/23.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. The National Audit Office (NAO) issued a consultation on 8 February 2024 seeking views on changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements. The consultation proposes to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. At this stage, we are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 18 March 2024.

Yours faithfully

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents

01 Executive Summary



02 Value for Money Commentary



03 Appendices



Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/auditquality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to Audit and Governance 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 and Governance 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 and Governance 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.



BOARDROOM

Page 104

# 01 Executive Summary





# Executive Summary

## Purpose

Auditors are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditor's provide an annual commentary on arrangements published as part of the Auditor's Annual Report. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

The purpose of this interim commentary is to explain the work we have undertaken during the year and highlight any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for audit year 22/23.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. As part of the NAO consultation issued on 8 February 2024, there is a proposal to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. However, the consultation states that where auditors have begun or already undertaken work that no longer falls under the reduced scope (if agreed once the consultation closes), they may still report on it in accordance with Schedule 4. We are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

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

- Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- An explanation of the planned responsive audit procedures to the significant risks identified;
- Findings to date from our planned procedures; and
- Summary of arrangements over the period covered by this report (Appendix A).

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





# Executive Summary (continued)

## Risks of Significant Weakness

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of Council committee reports;
- meetings with the Director of Finance;
- information from external sources; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.

Page 106

We have no matters to report by exception at this stage of the audit and we will update our interim reporting as part of issuing the final commentary in the Auditor's Annual Report later in the year.

# Executive Summary (continued)

## Reporting

Our interim commentary for 2022/23 is set out over pages 10 to 12. The interim commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2022/23. We have no recommendations arising from our VFM work.

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

In accordance with the NAO’s 2020 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this interim report, we have concluded that there is a significant weakness in the body’s arrangements.

Page 107

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weakness identified

# Executive Summary (continued)

## Independence

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

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

## EY Transparency Report 2023

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 2023:

[EY UK 2023 Transparency Report | EY UK](#)



## 02 Value for Money Commentary



# Value for Money Commentary

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

No significant weakness identified

The council has appropriate arrangements in place to ensure financial sustainability.

The medium term financial strategy (MTFS) is updated annually, looking forward over a 4 year period.

Throughout 2022/23, the MTFS in place was the "Budget and Council Tax Setting 2022/23 & future years forecasts". This was presented at Council in February 2022 and was prepared on the basis of delivering services at pre-pandemic levels i.e. the "steady state" with all COVID related costs and income losses met from the COVID Contingency Fund established as part of the 2021/22 budget setting process. There were potential commitments against the COVID Contingency of £15.2m (built up from Council and Government funding in 2020/21 and 2021/22) of £6.1m, leaving £9.1m for future years. This contingency has been established to provide a good level of surety that the Council will be able to continue to deliver all of its essential services as well as being able to respond to the continuing COVID-19 pandemic and its legacy after effects.

Page 19

The 2022/23 budget also included a target of £3m savings and a further forecast of £2m savings per annum over the following 3 years. Reserves in 2022/23 are maintained at £11.0m but falling to £8.2m by 2024/25 (£8.3m in 2025/26) but at a time when the risks of the Fair Funding Review and Business Rate "reset" will have passed.

Subsequent to the year we are assessing, the Financial Strategy for 2023/24 to 2026/27 and was revised and approved by Council in February 2023. The forecast indicates that there continues to be a number of spending pressures facing the Council over the coming years as core funding sources are expected to fall whilst unavoidable costs increase. A balanced budget was set for 2023/24 with no significant gaps in the future years to 2026/27, albeit with a savings target of £2m per annum.

Any potential gaps will need to be addressed by the Council in the forthcoming periods, but the Council has a good track record of addressing gaps and achieving savings targets through their annual budget processes and putting in place arrangements to do so in advance of the annual budgets based on their forward projections.

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

# Value for Money Commentary (continued)

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

No significant weakness identified

The Council had arrangements in place to ensure it made informed decisions and properly managed its risks.

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. Risks and performance are monitored and reported to corporate management team and review is undertaken by the Corporate Scrutiny Committee.

Internal Audit conduct audits annually which confirm that there are authorisation controls around accounting transactions and corrections which reduce the risk of fraud or error.

Page 11  
The Audit and Governance Committee are also presented with quarterly updates from Internal Audit on its programme of internal audits which cover a broad range of operational areas. This gives the Committee assurance over the effective operation of internal controls and includes reporting on areas of fraud detected. The Council also takes part in the National Fraud Initiative work.

The Audit and Governance Committee receives an annual report on the incidence of fraud within the Council, which also informs them of the range of processes, policies and strategies which the Council has for identifying and responding to fraud or error. The Audit and Governance Committee has the opportunity to review the Council's draft accounts and reviews the Annual Governance Statement. Any weaknesses in the system of internal control would be highlighted in the Statement.

The Council has a call over process whereby a panel of officers chaired by the monitoring officer and including legal, finance, democratic services and communications review and discuss all draft reports with the report authors prior to publication. Reports are presented to Scrutiny Committee in advance of decision at Cabinet Meetings to allow challenge and transparency and for Scrutiny to give any recommendations to Cabinet. The Council intends to move to a Committee Structure in May 2024.

The Audit and Governance Committee provide effective governance by receiving a wide range of key reports including from external and internal audit, periodic reports on strategic risks, annual governance statement, statement of accounts, treasury management strategy and contract monitoring.

The Monitoring Officer and Director of Finance maintain their legal responsibilities to ensure that the Council acts legally and within its financial means.

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

# Value for Money Commentary (continued)

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

No significant weakness identified

The Council has arrangements in place to improve economy, efficiency and effectiveness. These derive from the Corporate Plan, setting out the Council's priorities and objectives. The Cabinet and Corporate Management Team (CMT) are collectively responsible for delivery of the Corporate Plan and monitors progress against the key projects, budgets and performance measures on a regular basis.

To track performance and judge how well the Council are delivering their services, financial and performance information is discussed regularly at Directorate Service Boards, CMT and Cabinet. Performance information is collated, particularly in the form of the service level agreement report and discussed to identify areas for improvement. Reporting of performance is combined with financial monitoring in Quarterly Performance and Finance Reports.

The Council has engaged in a Corporate Peer Review to review and challenge the way it sets priorities, determines strategy and delivers its services in a financially sustainable way. Benchmarking takes place within many service areas to compare performance with national and statistical neighbours to identify where there are opportunities for improvement. At year end performance is measured in relation to the Corporate Plan.

In accordance with section 135 of the Local Government Act 1972 the Council has a set of contract standing orders (CSOs) that governs how the Council conducts procurement processes and awards contracts.

The Council has a procurement and contract monitoring team who oversees the Council's procurement activity and actively manages, alongside the lead commissioner, any procurement where the whole life value of the contract is over £25,000. This ensures compliance with CSOs and the Public Contract Regulations 2015 (where applicable) and other associated legislation such as the Public Services (Social Value) Act 2012.

Reporting of the Council's procurement and contract activity is made on a 6 monthly basis to the Corporate Management Team and the Audit and Governance Committee. These highlight the contract management framework which is still new and still developing and monitors performance of all contracts.

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





# 03 Appendices



# Appendix A - Summary of arrangements

## Financial Sustainability

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

### Reporting criteria considerations

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

### Arrangements in place

In-year pressures are identified through monthly Service Board Reporting to each Directorate. A summary report is then prepared for the monthly Corporate Management Team (CMT) (Directors) and the Corporate Leadership Team (Directors & Cabinet Members) which provides a focused discussion on the mitigation of budget pressures and identifies further financial risks. Pressures are firstly dealt with at a Directorate/Portfolio level with the aim of resolving them on an on-going basis. Any pressures which cannot be resolved on an on-going basis will then be considered as additions to the budget when the Medium Term Financial Strategy (MTFS) is reviewed during the process to develop the Budget Report for approval each year in February. Unavoidable pressures, inflation, growth and funding levels are then assessed and a savings plan developed to produce a balanced budget.

The Council holds a Corporate Contingency which has been increased to £4m to deal with both known and unknown unavoidable risks in year. Any risks that require on-going funding are then built into future budget through the budget process.

A Covid contingency is still in place to provide for known risks associated with the legacy impact of Covid particularly in relation to Adult Social Care (impact from the hospital discharge process during Covid which resulted in more people being placed in residential and nursing care) and Leisure Centre income where numbers of customers have taken time to recover. The Covid contingency is planned to remain until 2025/26 when it is expected that these pressures will have been removed from the system and the contingency exhausted.

How the body plans to bridge its funding gaps and identifies achievable savings

As part of the preparation for the 2023/24 budget each Directorate identified budget pressures arising from increases in demand and prices (inflation), unachieved savings which were part of previous year's budget setting and any bids for growth. Directors were asked to identify mitigation which could be achieved to reduce the pressures and the overall impact. A series of meetings were held to establish the final set of budget pressures that would be accommodated in the MTFS and to identify any remaining risks that would be provided for within the council's contingency and reserves. This resulted in the identification of £20m unplanned cost pressures facing the Council for 2023/24. Other information is presented to support the budget pressures put forward.

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

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

### Reporting criteria considerations

How the body plans to bridge its funding gaps and identifies achievable savings (continued)

### Arrangements in place

After considering changes in funding the remaining funding gap then dictates the amount of savings that need to be identified. The council uses a savings model to allocate the savings targets plus an amount of headroom to each portfolio. The model uses a weighted scoring approach which takes into account the service priority, the recognition of financial pressures, the ability to generate income and the opportunity to make further efficiency gains. Directors and Portfolio Holders are charged with developing a plan of on-going savings to reach the target set. A series of Star Chamber meetings will be held between the Director, Portfolio Holder, Leader, Cabinet Member with the responsibility for Finance and Senior Officers including the Chief Executive, the Director of Finance and Asst. Director of Finance to scrutinise the options for impact and deliverability. The process begins in the Summer to allow a significant amount of time for plans to be considered and finalised.

At the end of the process a list of savings options amounting to (or preferably exceeding the total savings target to offer some choice) will be discussed with the Cabinet and the final list of savings amounting to the total required will be determined. In parallel with this work a budget consultation exercise with the public is undertaken. For the 2022/23 budget this consisted of an on-line survey (running from 22 December 2022 to 30 January 2023 with 1092 responses) to determine the public preferences for making savings against service areas or raising income from fees and charges and raising council tax charges. These views are then taken into account when determining the final proposed list of indicative savings. The council also held meetings with the Union, Town and Parish Councils and the Voluntary sector and Business Sector.

Savings with a lower impact will be prioritised and opportunities to make efficiencies or generate income will be favoured over reductions in services. In the last two rounds of budget planning, service reductions have amounted to just 1% (2022-23) and 16% (2023-24) of the total savings requirement.

The Budget that is approved by Full Council each year, includes the list of indicative savings, however, these savings are indicative only and indicate the most likely way in which the budget will be delivered. If a particular saving is later not considered to be deliverable or deliverable in full then the Portfolio Holder and Director have the option to identify another alternative saving of equal value having due regard to the duty to produce an Equality Impact Assessment and to consult if applicable. Despite significant financial challenges and the scale of the budget pressures identified a balanced budget for 2023-24 was approved in February 2023.

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

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

### Reporting criteria considerations

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

### Arrangements in place

The Council has an approved MTFS, organised into themes which describes how the Council will approach the delivery of its necessary savings requirements. This covers the use of both Revenue and Capital Resources.

Savings targets are developed and allocated to each Portfolio of services (as previously described) by using a model which takes into account the strategic and statutory priorities of the council. Priority is given to the statutory services in terms of a lower proportion of the savings and taken together with other budget allocations awarded often results in a net annual gain for these services.

Adults and Children's social care account for c 60% of council spending, therefore when there has been the opportunity to raise an additional council tax precept for Adult Social Care this has been taken and passported directly to the service to help ensure that service delivery can be sustained. Similarly, all grants relating to Adults and Children's services are allocated directly to those service areas.

In addition the MTFS recognises that there are risks to the delivery of savings targets particularly across the statutory services where demand can be more difficult to manage or changes can take time to implement. Mitigation is therefore put in place, including the use of the Transformation Fund to pump prime investments required to deliver savings. Central budget allocations are also held to mitigate for the risk of either savings not being achieved or unexpected and unavoidable demand in the statutory services.

The Star Chamber process also examines in detail cost pressures and estimated demand pressures that service areas are experiencing in particular around Adult Social Care and Children's Services (as described above). The data is subject to significant challenge and scrutiny and where the pressure is confirmed and determined will present a risk even after mitigation then this will be considered as growth to be built in to the MTFS.

Additionally, the Council uses the outcome of the Budget Consultation to inform its spending priorities of both a revenue and capital investment nature.

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

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

### Reporting criteria considerations

### Arrangements in place

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The Council's Medium Term Financial Strategy is consistent with the Corporate Plan. One of the primary objectives of the Corporate Plan is to achieve financial sustainability and deliver a balanced budget. The integration of other plans also feature in the Councils approved Medium Term Financial Strategy.

The capital programme is a key driver for the future financial sustainability of the Council and this is recognised in the MTFS. The Capital budget is developed in conjunction with the revenue budget each year. In terms of funding for the Capital Programme contributions from the revenue account are an important feature of the MTFS as other capital resources are very limited and without planning to support the programme in this way the council would have insufficient resources to fund essential capital spend.

The Capital Strategy is also reflected in the MTFS and approved alongside the main budget, annually in February. The Capital Strategy reflects the capital plans as approved in the main budget and supports the Corporate Plan priorities by balancing priorities and resources and sets out the 3 core aims of the approach to capital planning :

Aim 1 - to support a medium term outlook

Aim 2 - to maximise the capital resources available and the flexibility of their application

Aim 3 - targeted capital investment

Investment plans such as the Regeneration Programme has in recent years seen an approval for £25m of borrowing built into the capital programme to deliver on its Regeneration plan for the Island which in the longer term will lead to revenue income streams and improved economic conditions/opportunities for the Island. Borrowing costs associated with the Regeneration schemes are factored into the revenue budget. A Finance Sub-group of the Isle of Wight Health and Care Partnership Board (ICP) meet to discuss the respective financial operational plans and financial positions of each partner organisation and to ensure that each is sighted on any plans which may have a financial impact on the care system across the Island. The Better Care Fund (BCF) is a jointly financed commissioning plan agreed annually between the council and the ICB which also ensures that there is alignment of objectives for social care and health.

Despite the challenges of forecasting the on-going impact of the pandemic and the uncertainty around Government Funding until the Provisional Finance Settlement was announced in December the council was able to agree a balanced budget for 2023/24 and future years forecast were thoroughly reviewed and updated. The programme of work to achieve this was overseen by the Executive Leadership Team throughout the year. Members have also been engaged in this process via Cabinet, Scrutiny committee meetings and the Audit and Governance Committee.



# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

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

### Reporting criteria considerations

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

### Arrangements in place

A strong focus on financial management is embedded throughout the council via a finance business partnering model which allocates dedicated financial staff resources to teams based on the risks of managing the budget due to demand challenges and the statutory nature of the service and the severity of the impact that any budget overspend may have on the council. Through this dedicated team structure the early identification of changes in demand/budget pressures is enabled and remedial action implemented as soon as possible. In addition to the focus within individual Directorates the monthly reporting of the council's overall financial position to CMT and CLT as described above provides the opportunity for a focused approach to the identification of mitigating actions to address any emerging budget pressures during the year.

In the event that an in-year financial pressure cannot be contained within a portfolio then the council has a corporate contingency budget and reserves to accommodate these events and other financial shocks.

The Council also holds a level of "headroom" over and above the minimum level of General Reserves, the minimum level being £8m. In addition, the Council holds specific Earmarked Reserves for specific risks. Examples include a Risk and Insurance Reserve, a Repair and Renewals Reserve and a Business Rates Reserve.

The council's budget plans (including the savings plan) are subject to scrutiny at the Star Chambers (as outlined above) which will also test out the underlying assumptions and data about future demand. Key areas of the council that are demand led such as Adult and Children's Social Care are subject to detailed budget planning each year (in effect zero based budgeting) where current/past trends are analysed and adjusted for estimated future changes to effectively re-set the care budget each year to align with the best estimate of demand and available resources.

Detailed risk registers are also held for every service area and reported regularly to Service Boards. The key risks to the council are contained within the Strategic Risk Register which is also reported within the QPMR reports to Cabinet and as a standalone report to the Audit and Governance Committee. The Strategic Risk Register includes two financial risks relating to the in-year achievement of the council's budget and a risk relating to the achievement of the MTFS.

# Appendix A - Summary of arrangements

## Governance

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

### Reporting criteria considerations

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

### Arrangements in place

The Council complies with the CIPFA Codes of Practice and Finance staff are appropriately qualified, trained, supervised and engage in CPD training. The council has a range of processes, policies and strategies to counter the risk of fraud including: a counter fraud strategy, codes of conduct for staff and elected members, comprehensive financial regulations, procurement rules, contract standing orders, policies governing gifts and hospitality, registers of interest, whistle blowing procedure, complaints procedure and on-going internal audit reviews. The Anti-Money Laundering Policy was updated and approved by Audit and Governance Committee in March 2023.

Internal Audit conduct audits annually which confirm that there are authorisation controls around accounting transactions and corrections e.g. journals, accounts payable and receivable and treasury management which reduce the risk of fraud or error.

The Audit and Governance Committee are also presented with regular updates from Internal Audit on its programme of internal audits which cover a broad range of operational areas. This gives the committee the assurance of the effective operation of internal controls and includes reporting on areas of fraud detected. Follow-up audit reports are also presented to the Audit and Governance Committee to give assurance that a plan of action is being implemented where any significant weaknesses have been identified in the original audit.

The Council experiences the specific risk of fraud in relation to Benefits Administration, Direct Payments, Contracts and Payroll. These areas are appropriately covered within the Council's annual audit plan. The Council also takes part in the National Fraud Initiative work.

The Audit and Governance Committee receives an annual report on the incidence of fraud within the council, which also informs them of the range of processes, policies and strategies which the council has for identifying and responding to fraud or error.

The Audit and Governance Committee reviews the Annual Governance Statement. Any weaknesses in the system of internal control would be highlighted in the Statement.

# Appendix A - Summary of arrangements

## Governance (continued)

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

### Reporting criteria considerations

### Arrangements in place

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud (continued)

There are areas in the Council which are more prone to fraud than others as described above. Housing and Council Tax benefits are examples of where fraud is experienced on a regular basis and as such the council maintains a strong interaction with the single fraud investigation team managed by the DWP. Other areas of the Council such as treasury management, procurement cards, procurement of contracts and payments in general are all areas that management are aware of and has taken appropriate steps to manage the risk of fraud. Audit reviews of these areas are also undertaken on a risk basis.

The council produces quarterly Performance, Finance and Risk reports which include the strategic risks for each portfolio, this is taken to formal Cabinet meetings after having been through the Corporate Scrutiny Committee. In addition a separate Strategic Risk Report is taken to the Audit and Governance Committee on a regular basis after having been through internal governance such as CMT and CLT.

How the body approaches and carries out its annual budget setting process

Each year the MTFs forecasts the savings requirement for a three year period, so that work can begin on developing savings plans early in the budget process, usually around July. The rolling four year Medium Term Financial Plan is refreshed each year taking into account a large range of factors, including the latest assumptions about inflation, cost pressures (as identified by the budget monitoring process in-year but which are considered to be unavoidable and on-going), unachievable prior year savings, growth in demand, external pressures (such as increases in the National Living Wage which has a significant impact on care providers and therefore pressure for fee uplifts from the council), changes in income levels from fees and charges (volume and price) and estimated changes in funding from government grants, council tax (tax base, proposed fee increases) and business rates.

All of these factors are considered in detail to arrive at a four year forecast plus current year of expenditure against funding, the gap being the savings requirement over the forthcoming year and subsequent three years. The forthcoming year's total savings target is then either confirmed as the amount set in the previous budget or adjusted and then allocated as described above to each portfolio and a series of Star Chambers held to scrutinise the savings for deliverability and impact. A final list of indicative savings is then produced after budget consultation has been undertaken.

This is a collaborative approach between senior officers and cabinet members. The process is a lengthy and detailed one commencing around July each year. The savings target is set for the forthcoming year and subsequent three years and therefore this gives the council a significant amount of time to consider and plan not only the next year's detailed savings plan, but also the direction of travel required to be able to deliver the further three years savings.

# Appendix A - Summary of arrangements

## Governance (continued)

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

### Reporting criteria considerations

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

### Arrangements in place

As described above, the council operates its financial management via a business partnering approach. Each Directorate has a dedicated team of finance staff assigned to it and led by a qualified and experienced accountant.

The finance teams are involved in day to day financial operations of the service areas and are included in service management teams and attend a large range of service meetings from which they have developed a significant knowledge of the service areas enabling them to identify early any activity/demand trends that may lead to financial pressures and in turn enabling corrective actions to be taken where possible.

Service Board reports are produced and presented on a monthly basis which depending on the nature of the service include non-finance performance information.

The Service Board Reports therefore contain bespoke information for each service but also contain standard information for each Directorate including overall revenue budget forecast, progress of savings targets, key balance sheet items and progress on the capital programme.

A monthly summary report is then produced consisting of the revenue forecast, capital programme and savings progress. This is presented to CMT and CLT whereby Directors will be held to account for the reasons for variances and the proposed plan of action. This provides for the opportunity to take remedial action.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

The Council has a call over process whereby a panel of officers chaired by the monitoring officer and including legal, finance, democratic services and communications review and discuss all draft reports with the report authors prior to publication to ensure they are written in such a way as to comply with the Council's standards including clear options and evaluation of options leading to a recommendation that clearly states inter alia financial and legal implications to allow the decision maker to make a fully informed decision.

Reports also undergo review at a Pre-Cabinet Meeting where Cabinet Members and report authors can ensure that the reports are complete and accurately reflect the decision to be taken – the reports are then taken forward to the Call Over process.

Reports are presented to Scrutiny Committee in advance of decision at Cabinet Meetings to allow challenge and transparency and for Scrutiny to give any recommendations to Cabinet.



# Appendix A - Summary of arrangements

## Governance (continued)

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

### Reporting criteria considerations

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee (continued)

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

### Arrangements in place

Those decisions delegated to Cabinet Members or key Officer Decisions are published on the council's website where required reports will be subject to consultation and an Equality Impact Assessment.

The Monitoring Officer will also when needed, write reports to challenge and implement change.

The Audit and Governance Committee provide effective governance by receiving a wide range of key reports including from External and Internal Audit, periodic reports on Strategic Risks, Annual Governance Statement, Statement of Accounts, Treasury Management Strategy and Contract monitoring.

The council monitors that it meets legislative/regulatory requirements and standards in terms of officer or member behaviour through the appropriate involvement of legal officers, horizon-scanning of public interest reports to use to seek out best practice from where mistakes have occurred and reports from the Committee on Standards in Public Life and through deliver of training and/or advice notes. Also, the review of member register of interests takes place periodically.

The Monitoring Officer also provides guidance on issues such as elections (pre-election guidance) and the member protocol for the annual budget meeting.

The Monitoring Officer also provides reports of the Independent Remuneration Panel (IRP) on the Member's Allowance Scheme to ensure that the approved members allowance scheme is in line with the IRP's statutory recommendations.

The Monitoring Officer will also advise on other issues as they arise such as the correct protocol for proposing amendments and guidance on Motions of Notice.

There is a standing agenda item at each committee pertaining to any conflict of interest declarations that is needed to be made by the members or officers. Officers and Members of the Council also need to submit an annual declaration of interest which is also included on the Council's website.

The accounts staff undertake a specific search of transactions and agreements to identify significant or unusual transactions to include in the annual accounts. The Council also sends an email to all members and key management staff requesting declarations of interests. As part of the Statement of Accounts process Related Parties transactions are reported upon both for Members and their family and Officers.

# Appendix A - Summary of arrangements

## Governance (continued)

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

### Reporting criteria considerations

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)  
(continued)

### Arrangements in place

Alongside this, the register of interests is a key source of information that underpins the Council's considerations of its related party disclosures. Following enactment of the Localism Act 2011, failure by Members of a council to comply with the requirement to register pecuniary and non-pecuniary interests is now a criminal offence.

# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness

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

Reporting criteria considerations	Arrangements in place
How financial and performance information has been used to assess performance to identify areas for improvement	<p>Financial and performance information is discussed regularly at Directorate Service Boards, CMT and Cabinet.</p> <p>Wightcare Business Unit – Following the identification of a growing budget gap between the cost of delivery of the service and income it was agreed at Full Council that a paper would be brought to Cabinet via Corporate Scrutiny Committee to review the business model of Wightcare including the associated costs and fee structures where Cabinet agreed to retain the Wightcare service in-house and develop two-year cost recovery model from April 2023 to achieve financial breakeven, reducing dependency on public funds and stabilising the service for the future under statutory charging guidance.</p> <p>Leisure centres – Covid and market competition has led to a drop in numbers using leisure facilities. A consultant was engaged to carry out a latent demand analysis and advice on how to recover. As a result Council is investing in the sales and marketing team, leisure attendants and revising the pricing model to attract new members.</p> <p>Home to School Transport – Increasing costs in home to school transport highlighted through budget monitoring reports led to a bid to the Transformation Fund in 2022/23 to introduce spend to save minibus schemes for schools/FE setting and stronger enforcement of SEN eligibility decision making.</p> <p>Routine reporting of performance is combined with financial monitoring in the Quarterly Performance and Finance Reports.</p>
How the body evaluates the services it provides to assess performance and identify areas for improvement	<p>The Quarterly Performance Monitoring Report (QPMR) presented to Cabinet contains a large number of performance measures structured for Portfolio responsibilities which measures performance over time so that trends can be analysed. The QPRM report also contains a section on Service Updates which identify progress with planned improvements.</p> <p>Benchmarking takes place within many service areas to compare performance with national and statistical neighbours to identify where there are opportunities for improvement.</p> <p>Peer Reviews are used across the council to identify areas for improvement.</p>

# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness (continued)

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

### Reporting criteria considerations

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

### Arrangements in place

Each partnership is set-up on an individual basis and with individual terms of reference and objectives which will be monitored within the partnership by using action plans and the development of key metrics where applicable.

Key strategic partnerships such as the Integrated Care Partnership have senior council representation including the Chief Executive who is the Executive Lead and the Director of Adult Social Care. In order to ensure that the Cabinet also have oversight of the activity of this board and are able to monitor its performance as key stakeholders, the minutes of this partnership board are presented to the Corporate Leadership Team meetings each month.

Other key projects which may not have formal partnership arrangements are presented to a Members Board on a regular basis to give them oversight of progress against key milestones and to enable them to hold the project managers to account. In May 2022 the Corporate Scrutiny Committee added a scoping document to its workplan around the council's partnership arrangements, the focus of which is:

- Is there a formal framework for entering partnership arrangements so that its purpose and expected outcomes are fully understood and that the Council's agreed priorities and objectives are met?
- How are performance, value for money, outputs, and financial incentives measured?
- Is provision made for the scrutiny of partnerships?
- Are all partner organisations expected to provide information to the council to enable councillors to conduct a full review if required?
- Are expected outcomes being delivered?



# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness (continued)

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

### Reporting criteria considerations

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

### Arrangements in place

In accordance with section 135 of the Local Government Act 1972 the Council has a set of contract standing orders (CSOs) that governs how the council conducts procurement processes and awards contracts.

The key principles of the CSOs are:

- (i) To achieve good value for money through appropriate market competition, so that we offer best value services to Isle of Wight residents;
- (ii) To be transparent to our residents about how we spend their money through our procurement processes;
- (iii) To ensure compliance with the legislation and regulations which govern the spending of public money;
- (iv) To ensure against any criticism or allegation of wrongdoing in the buying of goods and services or in the commissioning of works;
- (v) To support sustainability and social value objectives, the public sector equality duty, and encouraging local businesses on the Isle of Wight.

The Council has a procurement and contract monitoring team who oversees the Council's procurement activity and actively manages, alongside the lead commissioner, any procurement where the whole life value of the contract is over £25,000. This ensures compliance with CSOs and the Public Contract Regulations 2015 (where applicable) and other associated legislation such as the Public Services (Social Value) Act 2012. The Council runs an in-house procurement and contract management training programme which trains Council commissioners and contract managers in the following areas; procurement landscape, specification drafting, tender evaluations and contract management. This is designed to embed the knowledge and skills in relation to procurement and contracts within the commissioning services.

The Council has a Contract Management Framework which has been developed to assist officers in setting robust contract performance monitoring regimes, managing relationships with suppliers and to provide a structure for recording contract compliance which can be reported to Senior Managers, Elected Members and other key stakeholders. To support the Contract Management Framework, the Council is in the process of rolling out a contract monitoring system which will be a central point for recording the performance of the Council's contracts.

Reporting of the Council's procurement and contract activity is made on a 6 monthly basis to the Corporate Management Team and the Audit and Governance Committee. These highlight the contract management framework which is still new and still developing and monitors performance of all contracts.

## EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](https://ey.com).

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

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

© 2024 Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

UKC-024050 (UK) 07/22. Creative UK.

ED None

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

[ey.com/uk](https://ey.com/uk)

This page is intentionally left blank



Purpose: For Noting

## Committee Report

### ISLE OF WIGHT COUNCIL

Committee	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
Date	<b>18 MARCH 2024</b>
Title	<b>INTERNAL AUDIT PROGRESS REPORT</b>
Report of	<b>CHIEF INTERNAL AUDITOR</b>

---

### Executive Summary

1. Internal Audit provide periodic, summary in-year reporting to the Audit and Governance 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(s)

- |  |
|--|
| 3. That the report of internal audit be noted. |
|--|

### Background

4. The last Internal Audit Progress Report was presented to Audit and Governance Committee in December 2023. The report presented to the March 2024 committee meeting summarises the results of audits finalised between December 2023 and March 2024, covering all completed audits for the 2023/24 year.

### Corporate Priorities and Strategic Context

5. Internal Audit is a statutory function, responsible for providing independent assurance over all areas of the council.



Provision of affordable housing for Island Residents

- 6. There are no direct impacts within this report that will affect this corporate priority.

Responding to climate change and enhancing the biosphere

- 7. The work of Internal Audit supports making the council more accountable and transparent, through the publishing of the results of audits as part of committee papers, publicly available on the council’s website.

The work of Internal Audit supports partnership goals, by helping to ensure the availability of accurate financial information.



Economic Recovery and Reducing Poverty

- 8. There are no direct impacts within this report that will affect this corporate priority.

Impact on Young People and Future Generations

- 9. There are no direct impacts within this report that will affect this corporate priority.

Corporate Aims

- 10. Supports the Corporate Plan core value of being “fair and transparent”.

## **Consultation And Engagement**

11. 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**

12. There are no direct financial implications, audits are carried out within the approved budget.

## **Legal Implications**

13. 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**

14. 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.

## **Property Implications**

15. There are no direct impacts within this report with property implications.

## **Risk Management**

16. Risks associated with issues identified through the work of Internal Audit are clearly identified in all audit reports, regularly presented in summary form to the Audit and Governance Committee.

## **Appendices Attached**

17. Appendix 1 – Internal Audit Progress Report – March 2024.

Contact Point: Elizabeth Goodwin, Chief Internal Auditor  
☎ 821000 e-mail [Elizabeth.Goodwin@portsmouthcc.gov.uk](mailto:Elizabeth.Goodwin@portsmouthcc.gov.uk)

CHRIS WARD  
*Director of Finance  
and Section 151 Officer*

COUNCILLOR ANDREW GARRATT  
*Chairman of the Audit and  
Governance Committee*

This page is intentionally left blank



## Internal Audit Progress Report 20 February 2024

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 and Governance Committee on the progress of the 2023/24 Audit Plan as of 20 February 2024 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
<b>Assurance</b>	<i>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</i>
<b>Reasonable Assurance</b>	<i>Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority</i>
<b>Limited Assurance</b>	<i>Control weaknesses or risks were identified which pose a more significant risk to the Authority</i>
<b>No Assurance</b>	<i>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</i>

*Audits rated No Assurance are reported in their entirety to Audit and Governance 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
<b>Low Risk (Improvement)</b>	<i>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.</i>
<b>Medium Risk</b>	<i>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.</i>
<b>High Risk</b>	<i>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 an important exception would be the introduction of controls to detect and prevent fraud.</i>
<b>Critical Risk</b>	<i>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 and corrective action needs to be taken immediately.</i>

*Any critical exceptions found will be reported in their entirety to the Audit and Governance 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.

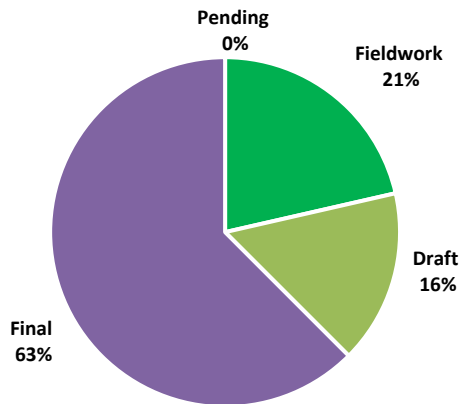
Follow Up Categories	Description
Open	<i>No action has been taken on agreed action.</i>
Pending	<i>Actions cannot be taken at the current time but steps have been taken to prepare.</i>
In Progress	<i>Progress has been made on the agreed action however they have not been completed.</i>
Implemented but not Effective	<i>Agreed action implemented but not effective in mitigating the risk.</i>
Closed: Verified	<i>Agreed action implemented and risk mitigated, verified by follow up testing.</i>
Closed: Not Verified	<i>Client has stated action has been completed but unable to verify via testing.</i>
Closed: Management Accepts Risk	<i>Management have accepted the risk highlighted from the exception.</i>
Closed: No Longer Applicable	<i>Risk exposure no longer applicable.</i>





## 6. Audit Plan Progress

### Status Overall



Status (including follow-ups)	Audits
Pending	0
Fieldwork	12
Draft	9
Final	35
<b>TOTAL</b>	<b>56</b>

There were 57 reviews set out in the Audit Plan for 2023/24. 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 53, 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 2023/24 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.

### Disabled Facilities, Process Review

#### Exceptions Raised

Critical	High	Medium	Low
0	1	1	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	Reasonable Assurance
Effectiveness and Efficiency of Operations	NAT
Reliability and Integrity of Data	NAT

The high-risk finding raised relates to gaps in financial oversight of Disabled Facilities Grant (DFG) spend, including approval and overall oversight of the budget. For context there is in excess of a £2m underspend on the Island for the DFG. A strategy should be considered, to address this underspend and ensure the grant is fully utilised for the benefit of the community, whilst complying with the grant conditions.

More minor issues were identified, regarding the need to review/update the Council's associated policy and procedure documents, ensuring that compliance with procurement rules is evidenced and that appropriate information is available on the Council's website.

### Venture Quays

#### Exceptions Raised

Critical	High	Medium	Low
0	0	10	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

This audit covered two projects focussed on East Cowes, a range of initiatives managed as a single regeneration project and the project to bring forward housing on sites purchased from Homes England. Both projects have been impacted on the dissolution of the Regeneration Directorate, with changes in senior staff responsible. To a degree both projects need to be 'normalised', for example updating risk registers and implementing revised governance arrangements. Specific to regeneration there are also actions to be addressed stemming from the recent review by the Levelling Up Fund (LUF). Regarding the housing side, following a failed procurement exercise, Housing Member Board (HMB) has recently approved disposal of the sites.



**IT Disaster Recovery**

**Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	0	4	0

**Overall Assurance Level**

<b>Reasonable Assurance</b>
-----------------------------

**Assurance Level by Scope Area**

Achievement of strategic objectives	NAT
Compliance with Policies, Laws & Regulations	NAT
Safeguarding of Assets	<b>Reasonable Assurance</b>
Effectiveness and Efficiency of Operations	<b>Reasonable Assurance</b>
Reliability and Integrity of Data	NAT

Medium risk findings were raised regarding IT elements covered in this review, regarding finalising the revised IT Disaster Recovery Plan and commissioning of the St Mary’s site (with failover testing to follow). In relation to service responsibilities a single finding covered the need to enhance IT elements of service Business Continuity plans and share learning from future exercises across the Council.

**Payroll**

**Exceptions Raised**

<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
0	0	2	0

**Overall Assurance Level**

<b>Reasonable Assurance</b>
-----------------------------

**Assurance Level by Scope Area**

Achievement of strategic objectives	NAT
Compliance with Policies, Laws & Regulations	<b>Reasonable Assurance</b>
Safeguarding of Assets	<b>Reasonable Assurance</b>
Effectiveness and Efficiency of Operations	NAT
Reliability and Integrity of Data	NAT

Sample testing of overtime and leavers (sample of ten for each) identified two errors. Regarding overtime, one claim which hadn’t been approved by the appropriate party and for leavers one instance of an underpayment to a leaver. The need for overtime claims to be approved by a separate individual has been re-highlighted to staff and the incorrect payment to the leaver has now been corrected.



**Accounts Payable**

**Exceptions Raised**

Critical	High	Medium	Low
0	1	0	2

**Overall Assurance Level**

Reasonable Assurance
----------------------

**Assurance Level by Scope Area**

Achievement of strategic objectives	NAT
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	Limited Assurance
Effectiveness and Efficiency of Operations	NAT
Reliability and Integrity of Data	NAT

The high risk finding related to either insufficient checks being made or anomalies in evidence recorded, prior to the vendor details being changed in all ten instances checked by Internal Audit. The process needs to be reviewed end to end, with robust checks made and appropriate evidence retained, prior to vendor details being updated. Low risk findings raised relate to late payments in three out of 25 invoices reviewed by Internal Audit and one sample vendor being identified.



## Follow-up Audits in Period

Summaries for follow-up reports rated 'reasonable assurance' or better are provided below.

St Mary's Catholic Primary School				First Follow-up Level	Second Follow-up Level
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Limited Assurance</b>	<b>Reasonable Assurance</b>
0	3	4	1		

Assurance level remains as reasonable, due to further work being required to fully address one of the high risk findings summarised below.

1	Medium	<b>Inventory</b> Processes have been improved, with annual checks and better management of disposals implemented.	Closed: Verified
2	Low	<b>Minibus</b> Minibus no longer in place.	Closed: No Longer Applicable
3	Medium	<b>Business Continuity Planning</b> Revised Business Continuity Plan has been produced, with a specific appendix covering cyber security.	Closed: Verified
4	High	<b>Data Security</b> The server is now in a locked cabinet.	Closed: Verified
5	Medium	<b>Estate Management</b> A revised fire risk assessment is in place and revised processes, to ensure that required site management tasks are carried out as required.	Closed: Verified
6	High	<b>Income</b> Overall income records have improved. However, enhancements regarding letting records are in progress.	In Progress
7	High	<b>Expenditure</b> Appropriate records are now maintained for expenditure.	Closed: Verified
8	Medium	<b>Single Central Record – SCR</b> Appropriate processing notes and records for starters and leavers are now in place.	Closed: Verified





**Oakfield Primary School**

Original Exceptions Raised				Original Assurance Level	Follow-up Level
Critical	High	Medium	Low	Reasonable Assurance	Reasonable Assurance
0	0	4	1		

Good progress has been made, with the majority of issues originally identified satisfactorily addressed.

1	Low	<b>Establishment of an accountable governing body</b> The scheme of delegation has been updated and is on the school website.	Closed: Verified
2	Medium	<b>Inventory</b> The Inventory has been enhanced, to include purchase prices, values and disposal information. Monthly checks are carried out, to ensure this remains accurate.	Closed: Verified
3	Medium	<b>Income</b> Processes regarding cash payments have been improved. Minor discrepancies were identified in sample testing. A new action has been agreed, to address this through an enhanced reconciliation process.	In Progress
4	Medium	<b>Lettings</b> Clear and consistent processes are now in place, with well maintained records.	Closed: Verified
5	Medium	<b>Expenditure</b> A new process has been implemented, with purchase requests required from staff. Further enhancements have been agreed, to ensure these can be reconciled to invoices, where these relate to multiple suppliers.	In Progress

**Risk Management**

Original Exceptions Raised				First Follow-up Level	Second Follow-up Level
Critical	High	Medium	Low	Assurance	Reasonable Assurance
0	1	2	0		

As noted below there has been a deterioration in the timeliness/corporate visibility of risk reporting for two directorates within the Council.

1	Medium	<b>Consistency of Risk Management</b> Issues were identified regarding the timeliness/corporate visibility of risk reporting regarding Children’s Services and Public Health; this represents a deterioration since the initial follow-up for this area.	In Progress
---	--------	---	-------------



**Early Years**

Original Exceptions Raised				First Follow-up Level	Second Follow-up Level
Critical	High	Medium	Low	Reasonable Assurance	Reasonable Assurance
0	0	1	0		

Enhancements have been made to payment processes, with further work planned.

<b>1</b>	<b>Medium</b>	<p><b>Payments to providers</b>            Process guidelines (currently in draft) have been developed and additional checks are now made of payments to providers. Work to automate the payment process through an IT system is planned.</p>	<b>In Progress</b>
----------	---------------	---	--------------------

**Regulatory Compliance (Environmental Health/Food Safety Standards)**

Original Exceptions Raised				Original Assurance Level	Follow-up Level
Critical	High	Medium	Low	Limited Assurance	Reasonable Assurance
0	2	0	0		

Enhancements have been made to payment processes, with further work planned.

<b>1</b>	<b>High</b>	<p><b>Governance Structure</b>            Papers have been drafted, for approval by the Portfolio Holder and Council Leader, pending approval at the time of fieldwork; this exercise will be scheduled annually, to comply with the Food Law Code of Practice.</p>	<b>In Progress</b>
<b>2</b>	<b>High</b>	<p><b>FSA Requirements</b>            Progress is being made, addressing the backlog of premises overdue food safety inspections (reduction from 1118 to 933 since the original audit). Senior management and the Food Standards Agency have been kept up to date regarding the position.</p>	<b>In Progress</b>



**Council Tax and NNDR**

Original Exceptions Raised				Original Assurance Level	Follow-up Level
Critical	High	Medium	Low	Reasonable Assurance	Reasonable Assurance
0	2	2	0		

Progress is ongoing, towards addressing issues identified.

1	High	<p><b>Discounts and Exemptions</b> Process notes and template letters have been enhanced, a clear recovery plan is in place and satisfactory progress is being made to address backlog.</p>	Closed, verified
2	High	<p><b>Write Offs</b> A Service Plan provided to Internal Audit identifies that enhancements are planned regarding the approach taken to write-offs.</p>	In Progress
3	Medium	<p><b>Long Term Debt Recovery</b> The Service Plan identified directly above also covers enhancing debt recovery, with work in progress. The number of accounts with long term debt has reduced by 10% for Council Tax and 14% for NNDR, although the total value of long term debts has increased.</p>	In Progress
4	Medium	<p><b>Monitoring of Discounts, Exemptions and Disregards</b> The Service Plan provided to Internal Audit identifies that work to enhance this area is pending. A number of improvements are planned, for example annual reviews to support identifying and investigating trends.</p>	In Progress

**Accounts Receivable (AR)**

Original Exceptions Raised				Original Assurance Level	Follow-up Level
Critical	High	Medium	Low	Reasonable Assurance	Reasonable Assurance
0	1	2	0		

Progress is ongoing, towards addressing issues identified.

1	High	<p><b>Wightcare Debt Recovery</b> The overall level of debt has reduced from £93,226 at the time of the original audit to £79,083 at the point of follow-up. Work is ongoing to embed a more robust approach to managing debts.</p>	In Progress
2	Medium	<p><b>Authority Debt Recovery</b> The issue with accounts being locked (preventing the issuing of debt recovery letters) has been resolved. Service Level Agreements (SLAs) with services, setting out joint working arrangements between the central team and service areas, are in the process of being developed.</p>	In Progress
3	Medium	<p><b>Aged Debt Monitoring</b> A more robust approach was evidenced at follow-up, including better liaison between service areas and the central team.</p>	Closed, Verified



**Software Development**

Original Exceptions Raised				Original Assurance Level	Follow-up Level
<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	Reasonable Assurance	Reasonable Assurance
0	0	4	0		

Good initial progress was made addressing the actions agreed. Further progress has been impacted by the Software Development Manager post falling vacant, subsequent to the original audit and the Council being unsuccessful filling this post. A second follow-up is included in the 2024/25 Audit Plan.

<b>1</b>	<b>Medium</b>	<b>Business Justification/Benefits Realisation</b> A draft, overarching set of standards has been developed, with implementation supported by the template documented detailed below.	<b>In Progress</b>
<b>2</b>	<b>Medium</b>	<b>Governance/Communications</b> Templates have been developed, for example regarding action/decision logs and highlight reporting. Fully implementing these templates is pending.	<b>In Progress</b>
<b>5</b>	<b>Medium</b>	<b>Development, Risk Management and Testing</b> A range of templates have been developed, covering for example risk management and testing. Fully implementing these templates is pending.	<b>In Progress</b>
<b>4</b>	<b>Medium</b>	<b>System Portfolio Resilience</b> An initial gap analysis of skills has been completed, however actions to fully address gaps, for example additional training are pending.	<b>In Progress</b>



## 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 2023/24 Audit Plan was produced or where changes have been made subsequently, for example to respond to service requirements, in year.

For context audits below are grouped by the directorate structure, as at the time the Audit Plan was approved by Committee. The revised structure, implemented mid-year, will be used for reporting from 2024/25.

Audit	Full	First Follow-up	Second Follow-up	Grant	Status	Assurance Level	Comments
<b>Adult Services</b>							
Better Care Fund (subset)	■				Suspended		Replaced with additional fraud work.
Homelessness	■				Fieldwork		
Adults Financial Management (Debt Recovery)	■				Draft		
Deferred Payments		■			Final	Reasonable	Reported in September.
<b>Children's Services</b>							
Direct Contact & Supervision	■				Draft		
Cowes Primary School	■				Final	Reasonable	Reported in December.
Holy Cross Catholic Primary School	■				Final	Reasonable	Reported in December.
Island Learning Centre (Pupil Referral Unit)	■				Fieldwork		
Out of Area Placements (Care)	■				Draft		
School Financial Management Standard (SFVS)	■				Final	Reasonable	Reported in September.
Children's Key Financial Controls	■				Draft		
Transition, Children to Adults		■			Fieldwork		
St Mary's School		■			Final	Reasonable	Included in this report.
Oakfield School		■			Final	Reasonable	Included in this report.
Brighstone School		■			Final	Reasonable	Reported in September.
Early Years			■		Final	Reasonable	Included in this report.





Audit	Full	First Follow-up	Second Follow-up	Grant	Status	Assurance Level	Comments
Family Hubs and Start for Life programme				■	Final	Assurance	Reported in December.
Troubled Families (Children's)				■	Fieldwork		
<b>Corporate Services</b>							
Accounts Payable (AP)	■				Final	Reasonable	Included in this report.
Bank and Cash	■				Draft		
Payroll	■				Final	Reasonable	Included in this report.
IT Disaster Recovery	■				Final	Reasonable	Included in this report.
Strategic Review of Fleet	■				Final	Reasonable	Reported in December.
Duplicate Payments (IDEA)	■				Final		Reported annually
Accounts Receivable (AR)		■			Final	Reasonable	Included in this report.
Council Tax and NNDR		■			Final	Reasonable	Included in this report.
Housing Benefits		■			Final	Assurance	Reported in September.
Fleet and Hire Cars		■			Final	Reasonable	Reported in December.
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.
<b>Finance</b>							
Capital Accounting	■				Fieldwork		
Treasury Management	■				Fieldwork		
Tax Evasion	■				Draft		
Key Controls	■				Fieldwork		
UNESCO and Interreg 1				■	Final	Assurance	Reported in September.
UNESCO and Interreg 2				■	Added Final	Assurance	Reported in September.
<b>Neighbourhoods</b>							
Car Parking	■				Draft		



Audit	Full	First Follow-up	Second Follow-up	Grant	Status	Assurance Level	Comments
Highways PFI/Ministry of Justice Land	■				Suspended		Project not at a point where audit would be of value; rescheduled to 2024/25.
Disabled Facilities, Process Review	■				Final	Reasonable	Included in this report.
Regulatory Compliance (Environmental Health/Food Safety Standards)		■			Final	Reasonable	Included in this report.
Bereavement		■			Final	Reasonable	Reported in September.
Disabled Facilities				■	Final	Assurance	Reported in December.
Local Transport Capital Funding				■	Final	Assurance	Reported in September.
Bus Subsidy				■	Fieldwork		
<b>Public Health</b>							
Public Health Outcomes		■			Final	Assurance	Reported in September.
<b>Regeneration</b>							
Venture Quay	■				Final	Reasonable	Included in this report.
Asset Disposals		■			Draft		
Planning and Enforcement		■			Draft		
<b>Strategy &amp; Corporate</b>							
Contract (TBC from across the organisation)	■				Suspended		Replaced with additional audits on compliance, fraud and governance.
Budget Savings	■				Fieldwork		
Risk Management (directorate arrangements)			■		Final	Reasonable	Included in this report.
Gouldings Project		■			Final	Assurance	Reported in December.
Compliance	■				Fieldwork		Additional review, assessing level of compliance for a



Audit	Full	First Follow-up	Second Follow-up	Grant	Status	Assurance Level	Comments
							range of corporate expectations.
Governance	■				Fieldwork		Additional review, assessing governance arrangements for a range of initiatives previously managed within Regeneration
Fraud	■				Fieldwork		Additional review, focussed on identifying gaps in fraud arrangements.



Purpose: For Decision

## Committee Report

Committee	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
Date	<b>18 MARCH 2024</b>
Title	<b>INTERNAL AUDIT PLAN 2024/25</b>
Report of	<b>CHIEF INTERNAL AUDITOR</b>

---

### Executive Summary

1. Internal Audit undertakes a programme of audits 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 sets out the proposed coverage for 2024/25.
2. The committee is asked to approve the proposed coverage, seeking any clarifications necessary to satisfy their remit.

### Recommendation(s)

- |  |
|--|
| 3. That the 2024/25 internal audit plan be approved. |
|--|

### Background

4. In accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS) an annual plan of audit activities, aligned to both the organisation's 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 and Governance Committee has been carried out. The Internal Audit Plan is presented to the Audit and Governance 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

5. Internal Audit is a statutory function, responsible for providing independent assurance over all areas of the council.

Provision of affordable housing for Island Residents

- 6. There are no direct impacts within this report that will affect this corporate priority.

Responding to climate change and enhancing the biosphere

- 7. The work of Internal Audit supports making the council more accountable and transparent, through the publishing of the results of audits as part of committee papers, publicly available on the council’s website.

The work of Internal Audit supports partnership goals, by helping to ensure the availability of accurate financial information.



Economic Recovery and Reducing Poverty

- 8. There are no direct impacts within this report that will affect this corporate priority.

Impact on Young People and Future Generations

- 9. There are no direct impacts within this report that will affect this corporate priority.

Corporate Aims

- 10. Supports the Corporate Plan core value of being “fair and transparent”.



## Consultation And Engagement

11. 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

12. There are no direct financial implications, audits are carried out within the approved budget.

## Legal Implications

13. 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

14. 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.

## Property Implications

15. There are no direct impacts within this report with property implications.

## Risk Management

16. In line with the PSIAS the 2024/25 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 and Governance Committee.

## Appendices Attached

17. Appendix 1 – 2024/25 Internal Audit Plan.

Contact Point: Elizabeth Goodwin, Chief Internal Auditor  
☎ 821000 e-mail [Elizabeth.Goodwin@portsmouthcc.gov.uk](mailto:Elizabeth.Goodwin@portsmouthcc.gov.uk)

CHRIS WARD  
*Director of Finance  
and Section 151 Officer*

COUNCILLOR ANDREW GARRATT  
*Chairman of the Audit and  
Governance Committee*



## 2024/25 Internal Audit Plan

Elizabeth Goodwin, Chief Internal Auditor



## Executive Summary

This document sets out Internal Audit's programme of work for 2024/25, to provide Audit and Governance 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 2023/24 higher risk exceptions will be followed up during 2024/25.
- 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 and Governance 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
<b>Children's Services - Ashley Whittaker, Director of Children's Services</b>			
Wootton Primary School	Full	R05	T5
Niton Primary School	Full	R05	T5
Haylands Primary School	Full	R05	T5
Fostering	Full	R05, R18	T5
Education Health Care Plan	Full	R05, R18	T5
Direct Contact & Supervision	Follow-up	R05, R18	T5
Cowes Primary School	Follow-up	R05	T5
Holy Cross Catholic Primary School	Follow-up	R05	T5
Island Learning Centre (Pupil Referral Unit)	Follow-up	R05	T5
Out of Area Placements (Care)	Follow-up	RO6, R18	T5
Integrated Children's System (ICS), Project Implementation	Full	RO6, R18	T5
Supporting Families (Children's)	Grant	R05, RO6, R18	T5
<b>Children's Services &amp; Finance - Ashley Whittaker, Director of Children's Services &amp; Chris Ward, Director of Finance &amp; Section 151 Officer</b>			
Children's Key Financial Controls	Follow-up	RO1, RO2, R18	T5, T2
<b>Adult Services - Laura Gaudion, Director of Adult Social Services</b>			
Better Care Fund (subset)	Follow-up	RO9	T3, T1
Homelessness	Follow-up	R06, R07	T3, T4
Adults Financial Management (Debt Recovery)	Follow-up	RO7	T3, T2
NHS Partnership (Joint Funding, Integrated Care Board)	Full	R09	T3, T1
Contract (Living Well)	Full	R08	T3
Deprivation of Liberty	Full	R08	T3, T4
Disabled Facilities, Process Review	Grant	R01, R02, R08	T3
<b>Corporate Services - Claire Shand/Sharon Betts, Director of Corporate Services</b>			
Accounts Payable (AP)	Follow-up	R01, R02	T2
CT and NNDR	Follow-up	R01, R02	T2
Accounts Receivable (AR)	Full	R01, R02	T2
Pension (Application Altair)	Full	R01, R02	T2





Payroll	Follow-up	R01, R02	T2
IT Disaster Recovery	Follow-up	R15	T2, T4
Strategic Review of Fleet	Follow-up	R01, R02	T2, T9
Duplicate Payments (IDEA)	Analytics	R01, R02	T2
Procurement	Full	R01, R02	T1, T2
Planned Maintenance Property	Full	R01, R02	T1, T2, T9
Cyber (Health Check follow up)	Full	R15	T4
IT Service Helpdesk	Full	R15	T4
Health & Safety	Full	RO3	T2, T4
IT Applications (duplications)	Full	R15	T4
Payment Card Industry, Data Security Standard (PCIDSS)	Full	R15	TT4
<b>Strategy/ Corporate - Wendy Perera, Chief Executive</b>			
Budget Savings	Follow-up	R01, R02	T2
Value for Money	Full	R01, R02	T1, T2
Annual Governance Statement	Full	All	All
<b>Community Services - Colin Rowland, Strategic Director of Community Services</b>			
Car Parking	Follow-up	R13	T8, T9
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
Venture Quay	Follow-up	R13	T7, T1
Ground Maintenance	Full	R13	T8
Coastal Defence	Full	R17	T8
Licensing	Full	R13	T4
<b>Community Services &amp; Finance - Colin Rowland, Strategic Director of Community Services &amp; Chris Ward, Director of Finance &amp; Section 151 Officer</b>			
Bus Subsidy	Grant	R01, R02	T2, T9
<b>Public Health - Simon Bryant, Director of Public Health</b>			
Contract Review (TBC)	Full	R08	T1, T2
<b>Finance - Chris Ward, Director of Finance &amp; Section 151 Officer</b>			
Capital Accounting	Full	R01, R02	T2
Treasury Management	Follow-up	R01, R02	T2
Key Controls (including Tax Evasion)	Follow-up	R01, R02	T2
UNESCO and Interreg	Grant	R01, R02	T2



- Public -

## 2024/25 Internal Audit Plan



## 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).
R16	Ability to manage the impact of the cost-of-living crisis (CoLC) on the council's activities and sustain service delivery.
R17	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.
R18	The ending of the partnership between IWC and HCC for Children's Social Care and associated decoupling arrangements.



## 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 March 2024

## Introduction

1. On 1<sup>st</sup> 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 and Governance 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 and Governance 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 and Governance 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 and Governance 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 and Governance 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 and Governance Committee to resolve.

- (10) They regularly report performance against plan to the Audit and Governance 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 and Governance 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 and Governance 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 and Governance Committee, following consultation with the, s151 Officer, Chief Executive, Monitoring Officer, Directors and the Audit and Governance Committee.
30. An update on progress and performance to the audit plan will be presented at each Audit and Governance 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 and Governance 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 and Governance 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 and Governance 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 and Governance 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 Decision

## Committee Report

### ISLE OF WIGHT COUNCIL

Committee	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
Date	<b>18 MARCH 2024</b>
Title	<b>CORPORATE TAX EVASION POLICY</b>
Report of	<b>CHIEF INTERNAL AUDITOR</b>

---

#### Executive Summary

1. The Corporate Tax Evasion Policy sets out details of the new Corporate Criminal Offences in relation to the failure to prevent tax evasion under the Criminal Finance Act 2017.
2. The committee is asked to approve the Policy, The Policy will ensure that the Council has fit for purpose arrangements to prevent tax evasion.

#### Recommendation(s)

- |   |
|---|
| 3. That the Corporate Tax Evasion Policy be approved. |
|---|

#### Background

4. The initial version of the Corporate Tax Evasion Policy was approved by the Audit Committee on the 20 November 2020. The Corporate Tax Evasion Policy presented to this meeting of the Audit and Governance Committee contains minor revisions only, to increase clarity and reflect changes to staff in post.

#### Corporate Priorities and Strategic Context

5. Sound governance arrangements, including up to date policies, are necessary to support all of the council's strategic objectives, specific to anti-tax evasion arrangements these help to ensure a financially balanced and sustainable council.

#### Provision of affordable housing for Island Residents

6. There are no direct impacts within this report that will affect this corporate priority.

Responding to climate change and enhancing the biosphere

- 7. The work of Internal Audit supports making the council more accountable and transparent, through the publishing of the results of audits as part of committee papers, publicly available on the council’s website.

The council’s Corporate Tax Evasion Policy supports making the council more accountable by ensuring that there are appropriate mechanisms to identify and respond to any instances of tax irregularity. Partnership goals are supported by helping to ensure that financial information is accurate.



Economic Recovery and Reducing Poverty

- 8. There are no direct impacts within this report that will affect this corporate priority.

Impact on Young People and Future Generations

- 9. There are no direct impacts within this report that will affect this corporate priority.

Corporate Aims

- 10. Supports the Corporate Plan core value of being “fair and transparent”.

## **Consultation And Engagement**

11. Consultation takes place with the senior staff within the Legal and Finance teams.

## **Financial / Budget Implications**

12. There are no financial implications to the council adopting the Corporate Tax Evasion Policy.

## **Legal Implications**

13. The Legal implications are incorporated within the body of the policy. There are no other immediate legal implications arising from this report.

## **Equality And Diversity**

14. 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.

## **Property Implications**

15. There are no direct impacts within this report with property implications.

## **Risk Management**

16. The revised policy with support the council in addressed risk stemming from tax evasion.

## **Appendices Attached**

17. Appendix 1 – Corporate Tax Evasion Policy.

Contact Point: Elizabeth Goodwin, Chief Internal Auditor  
☎ 821000 e-mail [Elizabeth.Goodwin@portsmouthcc.gov.uk](mailto:Elizabeth.Goodwin@portsmouthcc.gov.uk)

**CHRIS WARD**  
*Director of Finance and  
Section 151 Officer*

**COUNCILLOR ANDREW GARRATT**  
*Chairman of the Audit and  
Governance Committee*

This page is intentionally left blank



**Isle of Wight Council**  
**TAX EVASION POLICY**  
March 2024 / DRAFT v2.0

## Document Information

<b>Title:</b>	<b>Tax Evasion Policy</b>
<b>Status:</b>	<b>DRAFT</b>
<b>Current Version:</b>	<b>2.0</b>
<b>Author:</b>	Elizabeth Goodwin, Chief Internal Auditor ✉ <a href="mailto:elizabeth.goodwin@portsmouthcc.gov.uk">elizabeth.goodwin@portsmouthcc.gov.uk</a> ☎ 02392 834682
<b>Sponsor:</b>	Chris Ward, Director of Finance ✉ <a href="mailto:chris.ward@portsmouthcc.gov.uk">chris.ward@portsmouthcc.gov.uk</a> ☎ (01983) 821000
<b>Revision Consultation:</b>	Corporate Finance Legal Services
<b>Approved by:</b>	Audit and Governance Committee
<b>Approval Date:</b>	18 March 2024
<b>Review Frequency:</b>	Triennially
<b>Next Review:</b>	March 2027

<b>Version History</b>		
<b>Version</b>	<b>Date</b>	<b>Description</b>
0.1	August 2020	First Version
1.0	October 2020	Post feedback from officers; for approval
1.0	23 November 2020	FINAL APPROVED
2.0	March 2024	Scheduled review and update; minor changes only.

## Contents

<b>Document Information .....</b>	<b>2</b>
<b>Version History .....</b>	<b>3</b>
<b>1 The Reason for Tax Evasion Policy .....</b>	<b>5</b>
<b>2 Legislation .....</b>	<b>5</b>
<b>3 Who can be held accountable for tax evasion? .....</b>	<b>6</b>
<b>4 Policy Statement .....</b>	<b>6</b>
<b>5 Prevention Procedures .....</b>	<b>7</b>
<b>6 Definitions .....</b>	<b>7</b>
<b>7 Risk Assessment .....</b>	<b>8</b>
<b>8 Areas of Risk .....</b>	<b>8</b>
8.7 Construction Industry Scheme (CIS).....	9
8.10 PAYE - Income Tax / National Insurance.....	9
8.13 Inappropriate use of Gift Vouchers .....	9
8.15 Off Payroll Working - IR35 .....	10
8.19 Direct Payments (for Care & Support Services).....	10
8.23 Grants .....	10
<b>9 Proportionality of risk-based prevention procedures .....</b>	<b>11</b>
<b>10 Due Diligence .....</b>	<b>11</b>
<b>11 Communication &amp; Training .....</b>	<b>11</b>
<b>12 Monitoring and Reviews .....</b>	<b>12</b>
<b>13 Top level commitment .....</b>	<b>12</b>

## 1 The Reason for Tax Evasion Policy

- 1.1 This policy has been introduced to set out details of the new Corporate Criminal Offences in relation to the failure to prevent tax evasion under the Criminal Finance Act 2017.
- 1.2 The Isle of Wight Council (the council) is required to take prevention measures to prevent tax evasion.

## 2 Legislation

- 2.1 The Government believes that councils should be criminally liable where they fail to prevent those who act for, or on their behalf from criminally facilitating tax evasion.
- 2.2 The new offence does not fundamentally alter what is criminal; it simply focuses on who is to be held accountable for acts contrary to the current law.
- 2.3 The new offence focusses on the failure to prevent the crimes and those who act for or on behalf of a corporation, rather than trying to attribute acts to the corporation.
- 2.4 The new legislation in relation to corporate tax evasions is laid out in the Criminal Finance Act 2017 ("CFA 2017"). This new act came into force on 30 September 2017. Part 3 CFA 2017 creates two separate corporate offences:
  - Failure to prevent facilitation of UK tax evasion and;
  - Failure to prevent facilitation of overseas tax evasion.
- 2.5 The council would be guilty of an offence if a person commits a UK tax evasion facilitation offence when acting in the capacity of a person associated with the council.

Under section 45 (4) CFA 2017 a UK tax evasion offence is either of the following:

- a) An offence of cheating the public revenue.
- b) An offence under the law of any part of the United Kingdom consisting of being knowingly concerned in or taking steps with a view to, the fraudulent evasion of a tax.

Under section 45 (5) CFA 2017 'UK tax evasion facilitation offence' means an offence under the law of any part of the United Kingdom consisting of:

- a) Being knowingly concerned in, or in taking steps with a view to, the fraudulent evasion of a tax of another person,
- b) Aiding, abetting, counselling or procuring the commission of a UK tax evasion offence, or



- c) Being involved in the commission of an offence consisting of being knowingly concerned in, or in taking steps with a view to, the fraudulent evasion of tax.

### 3 Who can be held accountable for tax evasion?

3.1 The Government guidance refers to both the 'relevant body', namely the Isle of Wight Council and 'persons acting as associates,' (any employee, agent or other person who performs services for on behalf of the Isle of Wight Council). The associate person can be an individual or an incorporated body.

3.2 For corporate offences to be committed a criminal offence must have been committed at the taxpayer level (stage one)

**Stage one:** The criminal tax evasion by a taxpayer (either an individual or a legal entity) under existing law.

3.3 It is a crime to deliberately and dishonestly facilitate the commission of revenue fraud or to assist a person to fraudulently evade tax. It is also a crime to aid and abet another person in committing a revenue fraud.

**Stage two:** The criminal facilitation of the tax evasion by an associated person of a relevant body.

3.4 Only a relevant body can commit the new offences. If an associate deliberately and dishonestly criminally facilitates a tax evasion offence whilst performing services for or on behalf of the Isle of Wight Council, the council is accountable, unless they could evidence that reasonable prevention procedures have been put in place to prevent its associated persons from committing tax evasion

### 4 Policy Statement

4.1 Under the council's financial regulations, the chief officers for the council are responsible for ensuring that they comply with the requirements of the council's VAT manual and that all staff are aware of those requirements.

*The council is committed to sound corporate governance and supports the Nolan 7 Principles of Public Life covering; selflessness, integrity, objectivity, accountability, openness, honest and leadership.*

*The council expects the highest standards of probity, propriety and conduct from all its members, employees and those with whom it has dealings, and has in place a governance framework which seeks to create a culture that minimises the risks associated with fraud and corruption across all our services.*

*The council will maintain a strong message of intolerance to acts of fraud and corruption and will seek to publicise to the public any cases which highlight the consequences of committing fraud. We will take action to prosecute and recover losses where appropriate.*

- 4.2 Specifically, in relation to The Criminal Finances Act 2017, Isle of Wight Council aims to conduct its financial affairs in a law abiding manner and does not tolerate the facilitation of tax evasion by its staff or its associates.
- 4.3 Should staff or associates become concerned that a fellow employee is facilitating a third party's tax evasion they should follow the council's whistle blowing procedure.
- 4.4 The council already has a range of interrelated policies, procedures and guidance that provide a corporate framework to underpin its financial governance activities. These can be found on the intranet and are summarised in the Counter Fraud and Corruption Strategy. Updates to these documents are publicised through the council's Vine newsletter to staff.
- 4.5 Staff and associated persons are reminded that they are required at all times to abide by the council's policies and procedures. Failure to comply with these policies may result in disciplinary action for staff and termination of contract for associated persons.

## 5 Prevention Procedures

- 5.1 It is a statutory requirement that proportionate prevention measures should be taken based on an assessment that identifies the specific risks of the organisation.
- 5.2 The Criminal Finance Act has set the same threshold for tax evasion prevention measures as those set for bribery (under section 7 of the Bribery Act 2010). i.e. When an offence has been committed, an organisation must be able to evidence that there is adequate procedures in place as it was reasonable in all the circumstances designed to prevent persons associated with Isle of Wight Council from undertaking such conduct, including
  - Risk assessment
  - Proportionality of risk-based prevention procedures
  - Top-level commitment
  - Due diligence
  - Communication (including training)
  - Monitoring and review
- 5.3 The council must ensure that their policies and procedures are up to date and that staff are made fully aware of their responsibility around the recognition and prevention of tax evasion. This will not only provide a safeguard against tax evasion but also enable the council to evidence that prevention procedures are in place.

## 6 Definitions

- 6.1 **Tax evasion** is the non-payment or under-payment of taxes, usually resulting from making a false declaration or no declaration at all of taxes due to the relevant tax authorities, resulting in legal penalties (which may be civil or criminal) if the perpetrator of tax evasion is caught.
- 6.2 **Tax avoidance** is seeking to minimise a tax bill by activity which is not unlawful, whether or not it is morally reprehensible or socially or politically undesirable. Tax avoidance, even aggressive avoidance, is not a crime and falls outside the scope of Councils statutory duty to take adequate measures to prevent.
- 6.3 **Relevant Body** the Government guidance for the corporate offences of failure to prevent criminal facilitation of tax evasion, states that only a 'relevant body' can commit the new offences. This means that only incorporated bodies (typically companies but also includes the council) and partnerships can commit the new offences, not individuals.
- 6.4 However, a relevant body can commit the new offences if a person acting in the capacity of a person associated with it criminally facilitates a tax evasion offence.
- 6.5 A person is associated with a relevant body if that person is an employee, agent or other person who performs services for or on behalf of the relevant body (such as sub-contractors).

## 7 Risk Assessment

- 7.1 It is unlikely that any one individual council officer would benefit individually from tax evasion. There would have to be collusion either with a supplier or another council employee for an individual to benefit. However, the council's Internal Audit team will conduct regular compliance checks paying specific attention to areas of high risk and report back to the Audit Committee as part of its reporting on counter fraud activities.

## 8 Areas of Risk

- 8.1 The following examples are intended to illustrate situations in which a person (member of staff) or the council could facilitate tax evasion. The examples noted are not an exhaustive list.
- 8.2 **Value Added Tax (VAT)**
- 8.3 **VAT paid to Non-registered suppliers:** suppliers adding VAT to their invoices when they are not registered for VAT with the intention of not paying the tax over to HMRC. If the invoice is approved/paid by a council employee without questioning the incorrect addition of VAT to the invoice, they could be facilitating tax evasion by the supplier. If the council paid the invoice and recovered the VAT

from HMRC this would not be identified as a cost in anyone's budget so would be difficult to spot.

- 8.4 **Paying fraudulent VAT only invoices:** accepting and paying a VAT only invoice without checking that it is valid and relates to goods and services received by the council could facilitate tax evasion by a supplier. VAT only invoices would not be identified as a cost against any budget as the money would be recovered from HMRC and could therefore go undetected.
- 8.5 **Raising invoices to a customer:** having supplied goods or services to Customer A, they then ask the service to raise the invoice to Customer B. The reason for this change could be because Customer A is not VAT registered and cannot recover VAT whereas Customer B is registered and can recover the VAT. This type of request could be an indicator of tax evasion and the reason for the request should be obtained and the change only made if it is clear that the reason is not in order to evade tax.
- 8.6 **Supplies of goods or services to customers:** at a customer's request, changing the description of the goods or services supplied from those that would be subject to VAT to something that does not attract VAT. The only reason for doing this would be so that the customer does not have to pay the correct VAT due. The employee would be facilitating tax evasion by complying with this request.
- 8.7 **Construction Industry Scheme (CIS)**
- 8.8 Invoices received from suppliers could deliberately show a false breakdown of labour costs with the intention that a lower amount of tax will be deducted on the labour element, or no tax will be deducted at all.
- 8.9 A lack of understanding as to what comes within the scope of the scheme or the implications of not applying the scheme, could mean that the council is committing a criminal offence as they have assisted a third party in criminal tax evasion.
- 8.10 **PAYE - Income Tax / National Insurance**
- 8.11 **Failure to deduct the Tax and NI at the correct rate**  
A manager agrees to allow a staff member to claim home to work travel through an expense claim, by describing it in such a way to avoid its correct identification. Knowing that this is against the council's policy and with the intention to help the member of staff member to avoid paying the tax that is properly due.
- 8.12 The manager is allowing the staff member to make false statement to evade paying tax and is therefore committing an offence of assisting criminal tax evasion.

### **8.13 Inappropriate use of Gift Vouchers**

8.14 A member of staff is rewarded by way of a gift voucher over the HMRC trivial gift limit (currently £50). This could be seen to be a deliberate form of reward to avoid tax liabilities.

### **8.15 Off Payroll Working - IR35**

8.16 **Failure to identify workers/contractors that should be paid via the payroll.**

8.17 A supplier wishes to be treated as a self-employed contractor so that payments to them are paid gross and they can evade paying the appropriate income tax and national insurance liabilities. A council officer helps the supplier by falsifying information on the Employment Status Questionnaire to obtain a self-employed status result.

8.18 By supplying false information in this way, the council is committing a criminal offence as they have assisted a third party in criminal tax evasion.

### **8.19 Direct Payments (for Care & Support Services)**

8.20 The council makes payments to people who have been assessed as needing help from Social Care and who would like to arrange and pay for their own care and support, instead of receiving the support direct from the council. The recipient of the direct payment then becomes responsible for deductions for Income Tax and National Insurance from payments made to personal assistants and declaring this to HMRC.

8.21 As part of the council's duty to monitor the use of the direct payments awarded to individuals, staff carrying out the monitoring should ensure that deductions for Income Tax and National Insurance are being properly deducted and declared to HMRC. In the event that the payments are not being made the member of staff must raise this with their manager.

8.22 Failure to ensure deductions for Income Tax and National Insurance are paid means that the council or member of staff is committing a criminal offence as they have assisted a third party in criminal tax evasion.

### **8.23 Grants**

8.24 Failure to ensure that funding is used for its intended purposes.

8.25 The council gives a grant to an organisation for a specific project or service which may include the employment of staff. Staff are paid without the appropriate deduction of Income Tax and National Insurance. No checks are made when the grant is applied for to ensure that the organisation has sufficient funds to meet the tax liabilities and no checks are made to ensure the grant funding is used properly and for the intended purpose.



8.26 If the organisation has deliberately evaded tax, the council is committing a criminal offence as they have assisted a third party in criminal tax evasion.

8.27 These examples are intended to be illustrative and cannot cover every form of risk. Other risks could include:

- Encouraging elderly/disabled clients or charities to self-certify to obtain VAT zero-rating for goods they receive when they do not qualify for the zero-rating.
- Negotiating with suppliers to make cash payments (using petty cash or similar) when purchasing goods or services.

## 9 Proportionality of risk-based prevention procedures

9.1 The council has a zero tolerance for anyone committing tax evasion and recognises its responsibility to prevent the facilitation of tax evasion. This is reflected in the governance process and procedures to address specific risks.

9.2 In addition the Internal Audit Team incorporates a number of specific audits to identify various tax irregularities.

9.3 The council has the following policies in place that all contribute to staff awareness and governance:

- Financial Regulations
- Anti-Bribery and Corruption
- Whistle Blowing
- Code of Conduct
- Anti-Money Laundering

## 10 Due Diligence

10.1 Processes and procedures are in place in relation to payment of invoices. Regular audits take place and additional caution is exercised when making payment to new suppliers.

## 11 Communication & Training

11.1 All staff should be made aware of the CFA 2017 via induction and information on the council's intranet.

11.2 A specific module is available for staff in the council's online training system.

11.3 The reporting process for anyone who may have concerns that either tax evasion or the facilitation of tax evasion offences may have been committed are as follows:

- a) Barry Downer, Strategic Manager, [barry.downer@iow.gov.uk](mailto:barry.downer@iow.gov.uk)
- b) Geraint Newton (Internal Audit), [Geraint.newton@iow.gov.uk](mailto:Geraint.newton@iow.gov.uk)
- c) Or via the whistleblowing process [whistle.blowing@iow.gov.uk](mailto:whistle.blowing@iow.gov.uk)

## 12 Monitoring and Reviews

12.1 Monitoring and reviews will form as part of the annual audit program of activities and annual reports will be presented back to the Audit and Governance Committee.

## 13 Top level commitment

13.1 The Policy is supported by senior officers and endorsed by the Audit and Governance Committee.

## Committee Report

### ISLE OF WIGHT COUNCIL

Meeting	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
Date	<b>18 MARCH 2024</b>
Title	<b>TREASURY MANAGEMENT STRATEGY 2024-25</b>
Report of	<b>CABINET MEMBER FOR HOUSING &amp; FINANCE</b>

---

### Executive Summary

1. This report presents the Treasury Management Strategy (TMS) 2024-25.
2. The committee is asked to adopt the Treasury Management Strategy for 2024-25.

### Recommendation

3. That the committee adopt the Treasury Management Strategy for 2024-25

### Background

4. The council has delegated the review of the annual Treasury Management Strategy to the Audit and Governance 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 and governance 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 2024-25. No changes have been made prior to this report being published.
11. In accordance with TMP 6, the Audit and Governance Committee will receive an annual report on the compliance with the 2023-24 TMS at its meeting in July 2024, and regular progress reports regarding the 2024-25 TMS at the September 2024, December 2024 and March 2025 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 undertook a review of these investments in relation to their impact on the council's Climate and Environment Strategy



14. As can be seen above the treasury activities that are included in this report have a neutral impact on the climate change and environmental goals of the council

### **Economic Recovery and Reducing Poverty**

15. 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**

16. 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.

### **Corporate Aims**

17. The reporting of the treasury management activity of the council is in alignment with the aspiration of transparency and disclosure of council investments and debts as detailed in the [Corporate Plan 2021 - 2025](#).

### **Consultation**

18. There has been no external consultation in the preparation of this report, but it has been prepared using a template provided by Arlingclose Limited, the council's investment consultants.



19. This template provides us with the information that is required so that we are compliant with the requirements of the CIPFA code.
20. The treasury management strategy for 2024-25, has been considered by senior accountants within the Financial Management team, including both the Director of Finance and the Service Director Finance.

## **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 2024-25.
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 2024-25, the average investment portfolio is forecast to be £3 million, and the average debt portfolio is forecast to be £182 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.

## **Property Implications**

27. There are no property implications relating to the report at Appendix 1.

## **Risk Management**

28. This Treasury management activities have a high level of risk as they comprise 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.
29. 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).
30. 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.
31. 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.
32. It also operates protocols for maintaining financial controls. The treasury management function is reviewed by the council's internal auditors on a periodic 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.
33. 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.
34. 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**

35. The Treasury Management Strategy has been produced in order for the council to be compliant with the CIPFA Code of Practice on Treasury Management.
36. It lays out the parameters within which the treasury management will operate during the year 2024-25, in order to limit the risks that are set out above.

## Appendices Attached

37. Appendix 1 - Treasury Management Strategy 2024-25.

## Background Papers

38. 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](mailto:jo.cooke1@iow.gov.uk)

CHRIS WARD  
*Director of Finance  
and Section 151 Officer*

COUNCILLOR IAN STEPHENS  
*Cabinet Member for Housing  
and Finance*

# Isle of Wight Council Treasury Management Strategy 2024-25

## Document Information

Title:	Treasury Management Strategy 2024-25
Status:	Draft
Current Version:	2.0
Author:	Jo Cooke, Pension Fund & Treasury Management Accountant Financial Management ✉ <a href="mailto:jo.cooke1@iow.gov.uk">jo.cooke1@iow.gov.uk</a> ☎ (01983) 821000 ext. 6397
Sponsor:	Chris Ward, Director of Finance and Section 151 Officer Financial Management ✉ <a href="mailto:chris.ward@portsmouthcc.gov.uk">chris.ward@portsmouthcc.gov.uk</a> ☎ (01983) 821000
Consultation:	Director of Finance & S151 Officer, Assistant Director of Finance, Strategic Manager – Finance,
Approved by:	Audit & Governance Committee
Approval Date:	18 March 2024
Review Frequency:	Annual
Next Review:	March 2025

Version History		
Version	Date	Description
1.0	07 February 2024	First draft – template review, 24-25 budget implications, external advisors update advice.
2.0	05 March 2024	Final Version following budget amendment at full council



## Contents

Document Information.....	2
Contents.....	3
1 Introduction.....	4
2 External Context.....	4
3 Local Context.....	7
4 Borrowing Strategy.....	9
5 Treasury Management Investment Strategy.....	12
6 Treasury Management Prudential Indicators.....	18
7 Other Items.....	20
8 Financial Implications.....	21
9 Other Options Considered.....	21
Appendix 1 – Arlingclose Economic & Interest Rate Forecast (November 2023).....	23
Appendix 2 – Existing Investment & Debt Portfolio Position.....	25

## 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 (provided by Arlingclose Limited November 2023)

### **Economic background:**

- 2.1 The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority’s treasury management strategy for 2024/25.
- 2.2 The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November. Members of the BoE’s Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.
- 2.3 The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

- 2.4 UK Office for National Statistics (ONS) figures showed CPI inflation was 6.7% in September 2023, unchanged from the previous month but above the 6.6% expected. Core CPI inflation fell to 6.1% from 6.2%, in line with predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling, declining to around 4% by the end of calendar 2023 but taking until early 2025 to reach the 2% target and then falling below target during the second half 2025 and into 2026.
- 2.5 ONS figures showed the UK economy grew by 0.2% between April and June 2023. The BoE forecasts GDP will likely stagnate in Q3 but increase modestly by 0.1% in Q4, a deterioration in the outlook compared to the August MPR. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.
- 2.6 The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth remained strong, with regular pay (excluding bonuses) up 7.8% over the period and total pay (including bonuses) up 8.1%. Adjusted for inflation, regular pay was 1.1% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.
- 2.7 Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve paused in September and November, maintaining the Fed Funds rate target at this level. It is likely this level represents the peak in US rates, but central bank policymakers emphasised that any additional tightening would be dependent on the cumulative impact of rate rises to date, together with inflation and developments in the economy and financial markets.
- 2.8 US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But as the impact from higher rates is felt in the coming months, a weakening of economic activity is likely. Annual CPI inflation remained at 3.7% in September after increasing from 3% and 3.2% consecutively in June and July.
- 2.9 Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.9% in October 2023. Economic growth has been weak, and GDP was shown to have contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has been increasing rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

### **Credit Outlook:**

- 2.10 Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.
- 2.11 On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.
- 2.12 Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the AA3 rating in recognition of the UK's economic resilience and strong institutional framework.
- 2.13 Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.
- 2.14 There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.
- 2.15 However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

### **Interest Rate Forecast:**

- 2.16 Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early to mid-2026.

- 2.17 Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.
- 2.18 Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.
- 2.19 A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.
- 2.20 For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 4.63%, and that new long-term loans will be borrowed at an average rate of 5.63%.

### 3 Local Context

- 2.1 On 31 January 2024 the council held £179.9 million of borrowing and £22.0 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 (£ million)*

	<b>31.03.23 Actual £m</b>	<b>31.03.24 Estimate £m</b>	<b>31.03.25 Forecast £m</b>	<b>31.03.26 Forecast £m</b>	<b>31.03.27 Forecast £m</b>
<b>Total CFR</b>	<b>394.7</b>	<b>389.6</b>	<b>424.0</b>	<b>428.9</b>	<b>428.8</b>
Less: Other debt liabilities*	(92.7)	(87.8)	(89.5)	(83.2)	(76.5)
<b>Loans CFR</b>	<b>302.0</b>	<b>301.8</b>	<b>334.5</b>	<b>345.7</b>	<b>352.3</b>
Less: External borrowing**/***	(198.2)	(171.6)	(146.4)	(135.2)	(117.0)
<b>Internal borrowing</b>	<b>103.8</b>	<b>130.2</b>	<b>188.1</b>	<b>210.5</b>	<b>235.3</b>
Less: Balance sheet resources	(130.9)	(136.1)	(133.2)	(137.5)	(137.9)
<b>(Investments) / New borrowing ***</b>	<b>(27.1)</b>	<b>(5.9)</b>	<b>54.9</b>	<b>73.0</b>	<b>97.4</b>

\* 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.
- 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 2024/25.

**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 (£ millions)*

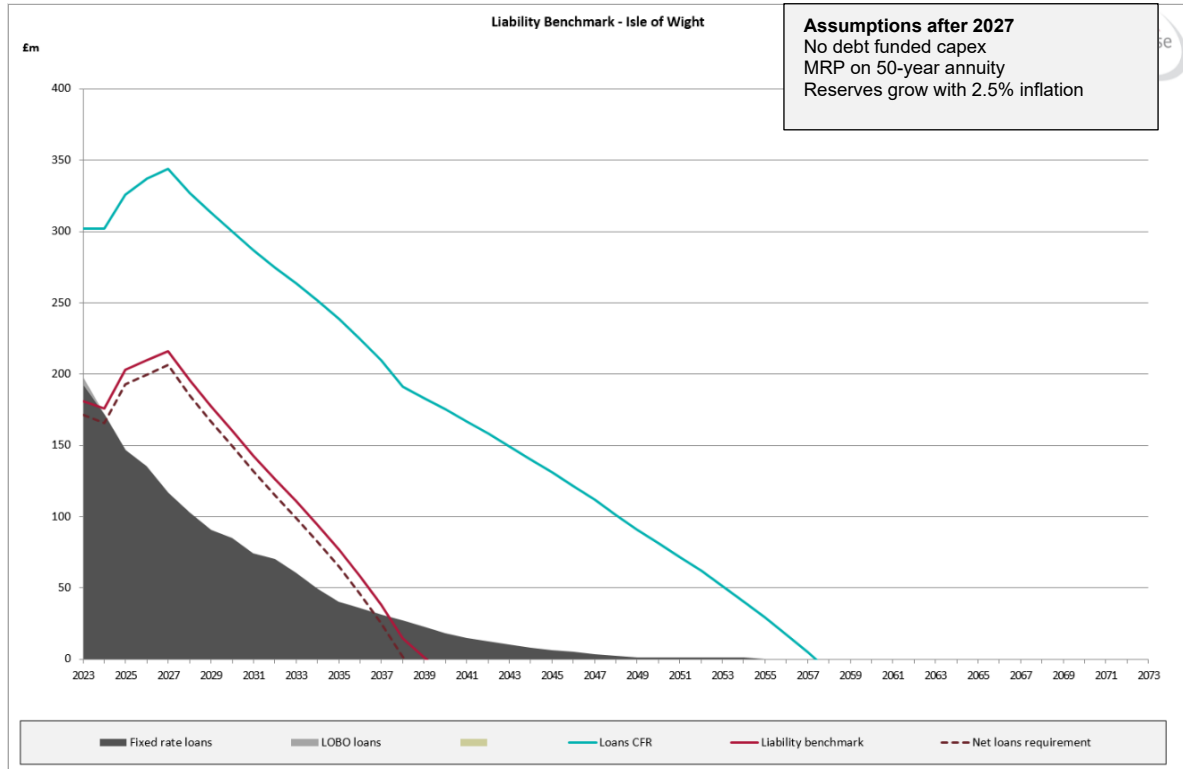
	<b>31.03.23 Actual £m</b>	<b>31.03.24 Estimate £m</b>	<b>31.03.25 Forecast £m</b>	<b>31.03.26 Forecast £m</b>	<b>31.03.27 Forecast £m</b>
Loans CFR	302.0	301.8	334.5	345.7	352.3
Less: Balance sheet resources	(130.9)	(136.1)	(133.2)	(137.5)	(137.9)
<b>Net Loans Requirement</b>	<b>171.1</b>	<b>165.7</b>	<b>201.3</b>	<b>208.2</b>	<b>214.4</b>
Plus: Liquidity Allowance	10.0	10.0	10.0	10.0	10.0
<b>Liability Benchmark</b>	<b>181.1</b>	<b>175.7</b>	<b>211.3</b>	<b>218.2</b>	<b>224.4</b>

- 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 2027, 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 2024 onwards. This is



shown in the chart below together with the maturity profile of the council's existing borrowing:

2.8



## 4 Borrowing Strategy

2.1 The council currently holds £179.9 million of loans, a decrease of £6.8 million when compared to January 2023, 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 £54.9 million in 2024/25 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 £460.0 million for 2024/25.

### 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 Given the significant cuts to public expenditure and in particular to local government funding the council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. 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 2024/25 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 of borrowing:**

- 2.8 The council may borrow from any reputable source including:
- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
  - UK Infrastructure Bank Ltd
  - 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.
- Similar asset based finance.

#### **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 & Governance Committee.

#### **Short-term and Variable Rate loans:**

2.11 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:**

2.12 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

- 2.13 As at 31 January 2024 the council held invested funds of £22.0 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 £51.0 million and £18.0 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:

- 2.14 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:

- 2.15 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:

- 2.16 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:**

- 2.17 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:**

- 2.18 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	£13m	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:**

- 2.19 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 considered.

- 2.20 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:**

- 2.21 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):**

- 2.22 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):**

- 2.23 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:**

- 2.24 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**

- 2.25 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):**

- 2.26 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:**

- 2.27 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:**

- 2.28 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 as low as possible whilst allowing for operations to continue. 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:**

- 2.29 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.
- 2.30 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:**

- 2.31 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.

**Reputational aspects**

- 2.32 The council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be considered when making investment decisions.
- 2.33 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020, and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the council will restrict its investments to those organisations of

higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the council’s cash balances, then the surplus will be deposited with the UK Government, 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 £132.8 million on 31 March 2024. In order that less than 10% 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 £13.0 million.
- 5.23 A working limit, however, will be adopted of a £10.0m maximum investment meaning that unless exceptional circumstances arise for a £13.0 million investment, the maximum loss on a single default will be limited to less than 10%. 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 prudent basis, with receipts underestimated 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	£27.8m

- 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
Upper limit on one-year revenue impact of a 1% rise in interest rates	£0.2m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.2m

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 2024/25. 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	2024/25	2025/26	2026/27	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

- 6.8 The CIPFA Code requires the council to include the following in its treasury management strategy.

**Financial Derivatives:**

- 6.9 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).
- 6.10 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.
- 6.11 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.
- 6.12 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.

**Markets in Financial Instruments Directive:**

- 6.13 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.

**Investment Advisers:**

- 6.14 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

- 6.15 The budget for investment income in 2024/25 is £0.16 million and is based on an average investment portfolio of £3 million. The budget for debt interest paid in 2024/25 is £8.82 million, based on an average debt portfolio of £182 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

- 6.16 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 & Governance 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.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
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 – November 2023

### Underlying assumptions:

- 1 UK inflation and wage growth remain elevated but, following a no-change MPC decision in November, Bank Rate appears to have peaked in this rate cycle. Near-term rate cuts are unlikely, although downside risks will increase as the UK economy likely slides into recession and inflation falls more quickly.
- 2 The much-repeated message from the MPC is that monetary policy will remain tight as inflation is expected to moderate to target slowly. In the Bank's forecast, wage and services inflation, in particular, will keep CPI above the 2% target until 2026.
- 3 The UK economy has so far been relatively resilient, but recent data indicates a further deceleration in business and household activity growth as higher interest rates start to bite. Global demand will remain soft, offering little assistance in offsetting weakening domestic demand. A recession remains a likely outcome.
- 4 Employment demand is easing, although the tight labour market has resulted in higher nominal wage growth. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household spending will therefore be weak. Higher interest rates will also weigh on business investment and spending.
- 5 Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects have diminished.
- 6 Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant policy loosening in the future to boost activity.
- 7 Global bond yields will remain volatile, particularly with the focus on US economic data and its monetary and fiscal policy. Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.
- 8 There is a heightened risk of geo-political events causing substantial volatility in yields.

**Forecast:**

- 9 The MPC held Bank Rate at 5.25% in November. Arlingclose believes that this is the peak for Bank Rate.
- 10 Arlingclose therefore anticipates that the MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- 11 The immediate risks around Bank Rate remain on the upside, but these diminish over the next few quarters and shift to the downside before balancing out, due to the weakening UK economy and dampening effects on inflation.
- 12 Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
<b>Official Bank Rate</b>													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>3-month money market rate</b>													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>5yr gilt yield</b>													
Upside risk	0.00	0.50	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.28	4.35	4.30	4.25	4.10	4.00	3.75	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>10yr gilt yield</b>													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.32	4.40	4.35	4.30	4.25	4.15	4.00	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>20yr gilt yield</b>													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.78	4.70	4.65	4.55	4.45	4.35	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>50yr gilt yield</b>													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.38	4.30	4.25	4.20	4.15	4.15	4.10	4.10	4.10	4.10	4.10	4.10	4.10
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

- PWLB Standard Rate = Gilt yield + 1.00%
- PWLB Certainty Rate = Gilt yield + 0.80%
- PWLB HRA Rate = Gilt yield + 0.40%
- UK Infrastructure Bank Rate = Gilt yield + 0.40%

## Appendix 2 – Existing Investment & Debt Portfolio Position

	31 January 2024 Actual Portfolio £m	31 January 2024 Average Rate %
<b>External Borrowing:</b>		
Public Works Loan Board	159.9	3.14%
Local authorities	20.0	4.73%
LOBO loans from banks		
<b>Total External Borrowing</b>	<b>179.9</b>	<b>3.32%</b>
<b>Other Long-Term Liabilities</b>		
PFI	92.4	
Finance Leases	0.2	
Transferred Debt	-	
<b>Total Gross External Debt</b>	<b>272.5</b>	
<b>Investments</b>		
Banks & Building Societies (unsecured)	(1.0)	5.14%
Government (incl. local authorities)	(5.0)	5.45%
Money Market Funds	(16.0)	5.31%
Other Pooled Funds	-	
<b>Total Investments</b>	<b>(22.0)</b>	<b>5.33%</b>
<b>Net Debt</b>	<b>250.5</b>	

## Committee Report

### ISLE OF WIGHT COUNCIL

Meeting	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
Date	<b>18 MARCH 2024</b>
Title	<b>TREASURY MANAGEMENT QUARTER 3 REPORT 2023-24</b>
Report of	<b>CABINET MEMBER FOR HOUSING &amp; FINANCE</b>

---

### Executive Summary

1. In accordance with the council's Treasury Management Strategy 2023-24, this is a report on treasury management policies, practices and activities for the nine months to 31 December 2023.
2. In March 2023, the committee approved the Treasury Management Strategy for 2023-24 and this is the second of the regular progress reports on treasury management activities for this year.
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 2023 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 2023, 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 16 January 2024.
9. Arlingclose's latest interest rate forecast (19 December 2023) is suggesting that they are not expecting a further interest rate increase and anticipate that the rate will start to slowly reduce from September 2024 to a position of 3.0% in September 2026. This forecast is unchanged from that presented with the quarter 2 report.
10. 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."*
11. 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.
12. 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**

13. 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](#).
14. 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.
15. The Treasury Management Strategy is reviewed and updated annually in March and approved by the Audit & Governance Committee.

### **Responding to climate change and enhancing the biosphere**

16. 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 undertook a review of these investments in relation to their impact on the council’s Climate and Environment Strategy



17. As can be seen above the treasury activities that are included in this report have a neutral impact on the climate change and environmental goals of the council.

**Economic Recovery and Reducing Poverty**

- 1.1 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.

**Corporate Aims**

19. The reporting of the treasury management activity of the council is in alignment with the aspiration of transparency and disclosure of council investments and debts as detailed in the [Corporate Plan 2021 - 2025](#).

## **Consultation**

20. There has been no external consultation in the preparation of this report, but it has been prepared using a template provided by Arlingclose Limited, the council's investment consultants.
21. This template provides us with the information that is required so that we are compliant with the requirements of the CIPFA code.
22. The treasury management report for the nine months to 31 December 2023, has been considered by senior accountants within the Financial Management team, including both the Director of Finance and the Service Director Finance.

## **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 have increased, the council is forecasting lower than budgeted costs of borrowing due to current lower levels of short-term borrowing. Existing long-term borrowing is not affected by rising interest rates.
26. The actual level of investments has decreased by £1.5 million during the nine-month period of this report, due to the timing of income received in advance of expenditure. Increasing interest rates on our investments have generated higher returns, increasing from an average of 4.20% to 4.90% over the period.
27. The combination of reduced borrowing costs and increased investment income has resulted in a forecast net saving of £2.9 million which will contribute towards to overall financial position of the council for 2023-24.
28. In addition to investing in money market funds the council has advanced a loan to another local authority. Close attention is taken to the financial situation of other local authorities, and no loans have been made to any authority that has issued a S114 notice.

## **Legal Implications**

29. 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 2023-24.

## **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.

## **Property Implications**

33. There are no property implications relating to the report at Appendix 1.

## **Risk Management**

34. Treasury management activities have a high level of risk as they comprise 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.
35. 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).
36. 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.
37. 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.
38. It also operates protocols for maintaining financial controls. The treasury management function is reviewed by the council's internal auditors on a periodic 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.
39. 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.

40. 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

41. The council's treasury management activities for the nine months to 31 December 2023 have fallen within the boundaries of the agreed strategy for 2023-24.

## Appendices Attached

42. Appendix 1 – Treasury Management 2023-24 report to 31 December 2023.

## Background Papers

- 1.2 Treasury Management Strategy 2023-24 (Audit Committee 20 March 2023, Item 11) [\(Public Pack\)Agenda Document for Audit Committee, 20/03/2023 10:00 \(moderngov.co.uk\)](#)

Contact Point: Jo Cooke, Pension Fund & Treasury Management Accountant, ☎ 821000  
e-mail [jo.cooke1@iow.gov.uk](mailto:jo.cooke1@iow.gov.uk)

CHRIS WARD  
*Director of Finance  
and Section 151 Officer*

COUNCILLOR IAN STEPHENS  
*Cabinet Member for Housing  
and Finance*



# **Isle of Wight Council**

## **Treasury Management**

### **Quarter 3 Report 2023/24**

# Contents

Contents.....	2
1 Introduction.....	3
2 External Context (provided by Arlingclose Limited) (produced 16 January 2024).....	3
3 Local Context.....	5
4 Borrowing.....	6
5 Borrowing strategy and activity.....	7
6 Other Debt Activity.....	9
7 Treasury Management Investment Activity.....	9
8 Non-Treasury Investments.....	11
9 Treasury Performance.....	12
10 Consultations.....	12
11 Compliance.....	13
12 Treasury Management Prudential Indicators.....	14
13 Additional Indicators.....	16



# 1 Introduction

- 1.1 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 outturn reports.
- 1.2 This report includes the new requirement in the 2021 Code, mandatory from April 2023, of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated into the council's normal quarterly performance measuring report.
- 1.3 The council's treasury management strategy for 2023/24 was approved at the audit committee meeting on 20 March 2023. 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.

## 2 External Context (provided by Arlingclose Limited) (produced 16 January 2024)

### Economic background

- 2.1 UK inflation rates finally started to decline, mirroring the sharp but earlier drop seen in the Eurozone and US. Despite the fall, the Consumer Price Index (CPI) remained substantially in excess in the Bank of England's (BoE) 2% target, at 3.9% for November 2023. Market expectations for further rises in Bank Rate fell from October through to year end, indicating that the 5.25% level reached in August 2023 was indeed the peak for Bank Rate.
- 2.2 Economic growth in the UK remained weak over the period, edging into recessionary territory. In calendar Q3 2023, the economy contracted by 0.1%, following no change in Q2. Monthly GDP data showed a 0.3% contraction in October, following a 0.2% rise in September. While other indicators have suggested a pickup in activity in the subsequent months, Q4 GDP growth is likely to continue the weak trend.
- 2.3 July data showed the unemployment rate increased to 4.2% (3mth/year) while the employment rate rose to 75.7%. Pay growth edged lower as the previous strong pay rates waned; total pay (including bonuses) growth was 7.2% over the three months to October 2023, while regular pay growth was 7.3%. Adjusting for inflation, pay growth in real terms were positive at 1.3% and 1.4% for total pay and regular pay respectively.
- 2.4 Inflation continued to fall from its peak as annual headline CPI declined to 3.9% (down from 4.6%) in November 2023. The largest downward contribution came from energy and food prices. The core rate also surprised on the downside, falling to 5.1% from 5.7%.

- 2.5 UK BoE's Monetary Policy Committee held Bank Rate at 5.25% throughout the period, although a substantial minority continued to vote for a 25-basis point rate rise. The Bank continues to tighten monetary policy through asset sales, as it reduces the size of its balance sheet. Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data showed that higher interest rates were working in the UK, US, and Eurozone.
- 2.6 Following the December MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% is the peak in Bank Rate. Short term risks are broadly balanced, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.
- 2.7 The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, it is likely this will reverse at some point and spending will struggle. Higher rates will also impact exposed businesses; according to S&P/CIPS survey data, the UK manufacturing and construction sectors contracted during the quarter. The services sector recovered, however, with the PMI rising strongly in December, possibly due to improving consumer confidence.
- 2.8 The US Federal Reserve held its key interest rate at 5.25-5.50% over the period. While policymakers continued to talk up the risks to inflation and therefore interest rates, this stance ebbed over the quarter culminating in a relatively dovish outcome from the December FOMC meeting.
- 2.9 The European Central Bank continues to resist market policy loosening expectations, but the Eurozone CPI rate has fallen sharply as GDP growth as markedly slowed, hitting 2.4% in November (although rising to 2.9% on energy-related base effects).

### **Financial Markets**

- 2.10 Financial market sentiment and bond yields remained volatile, but the latter rapidly trended downwards towards the end of 2023 on signs of sharply moderating inflation and economic growth.
- 2.11 Gilt yields fell towards the end of the period. The 10-year UK benchmark gilt yield rose from 4.57% to peak at 4.67% in October before dropping to 3.54% by the end of December 2023. The Sterling Overnight Rate (SONIA) averaged 5.19% over the period.

### **Credit Review**

- 2.12 Arlingclose maintained the advised maximum duration limit for all banks on its recommended counterparty list to 35 days over the period.

- 2.13 In October, Moody's revised the outlook on the UK's Aa3 sovereign rating to stable from negative. This led to similar rating actions on entities that include an element of government support in their own credit ratings, including banks and housing associations. Local authorities were, however, downgraded on expectations of lower government funding.
- 2.14 However, Following the issue of a Section 114 notice, in November Arlingclose advised against undertaking new lending to Nottingham City Council. After reducing its recommended duration on Warrington Borough Council to a maximum of 100 days in September, the local authority was subsequently suspended from the Arlingclose recommended list following a credit rating downgrade by Moody's to Baa1.
- 2.15 Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress, but no changes were made to recommended durations over the period.
- 2.16 Heightened 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.

### 3 Local Context

- 2.1 On 31st March 2023, the council had net borrowing of £171.2 million 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**

	<b>31.03.23 Actual £m</b>	<b>31.03.24 Forecast £m</b>
<b>Total CFR</b>	<b>394.7</b>	<b>389.6</b>
Less: Other debt liabilities*	(92.6)	(87.8)
<b>Loans CFR</b>	<b>302.1</b>	<b>301.8</b>
Less: External borrowing**/**	(198.2)	(171.6)
<b>Internal borrowing</b>	<b>103.9</b>	<b>130.2</b>
Less: Balance sheet resources	(131.0)	(136.1)
<b>(Investments) / New borrowing</b>	<b>(27.1)</b>	<b>(5.9)</b>

\* 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 treasury management position on 31 December 2023 and the change during over the year is shown in Table 2 below.

**Table 2: Treasury Management Summary**

	<b>31.03.23 Balance</b>	<b>Movement</b>	<b>31.12.23 Balance</b>	<b>31.12.23 Average Rate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
Long-term borrowing				
- PWLB	168.2	(6.1)	162.1	3.16%
- LOBO	5.0	(5.0)	-	-
Short-term borrowing	25.0	(5.0)	20.0	4.73%
<b>Total borrowing</b>	<b>198.2</b>	<b>(16.1)</b>	<b>182.1</b>	<b>3.34%</b>
Short term Investments	(27.0)	1.5	(25.5)	5.35%
<b>Total investments</b>	<b>(27.0)</b>	<b>1.5</b>	<b>(25.5)</b>	<b>5.35%</b>
<b>Net borrowing</b>	<b>171.2</b>	<b>(14.6)</b>	<b>156.6</b>	<b>3.01%</b>

- 2.3 There has been an increase in investments throughout the first half of the year, which is due to the receipt of revenue in advance of the expenditure being incurred. This is expected to reduce throughout the year.

### 3 Borrowing

- 3.1 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 authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

### 4 Borrowing strategy and activity

- 4.1 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.
- 4.2 Interest rates have seen substantial rises over the last two years, although these rises began to plateau in the later months of 2023. Rates over the last 3 quarters were at the peak between June and October, since then they have fallen back to lows last seen in April 2023. Gilt yields have remained volatile, facing upward pressure following signs that UK growth had been more resilient and inflation stickier than expected. However more recent signs of slowing inflation and the

perception of an increasingly struggling economy have now begun to change this sentiment, resulting in falling gilt yields and, consequently, PWLB rates.

- 4.3 On 31 December, the PWLB certainty rates for maturity loans were 4.19% for 10-year loans, 4.90% for 20-year loans and 4.67% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.
- 4.4 On 31 December 2023, the council held £182.1 million of loans, a decrease of £16.1 million when compared to the position on 31 March 2023, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31 December are summarised in Table 3 below.

**Table 3: Borrowing Position**

	<b>31.03.23 Balance</b>	<b>Net Movement</b>	<b>31.12.23 Balance</b>	<b>31.12.23 Weighted Average Rate</b>	<b>31.12.23 Weighted Average Maturity (years)</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Public Works Loan Board	168.2	(6.1)	162.1	3.16%	13.84
Banks (LOBO)	5.0	(5.0)	-		
Banks (Fixed Term)	-	-	-		
Local Authorities (long-term)	-	-	-		
Local Authorities (short-term)	25.0	(5.0)	20.0	4.73%	0.34
<b>Total borrowing</b>	<b>198.2</b>	<b>(16.1)</b>	<b>182.1</b>	<b>3.34%</b>	<b>12.36</b>

- 4.5 The council's short-term borrowing cost has continued to increase with the rise in Bank Rate and short-dated market rates. The average rate on the council's short-term loans at 30 September 2023 on £20 million was 4.73%, this compares with 0.12% on £10 million loans 12 months ago.
- 4.6 The council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained.

**Forward starting loans:**

- 4.7 To enable certainty of cost to be achieved without suffering a cost of carry in the intervening period, the council arranged a £5 million of forward starting loan with fixed interest rate of 5.2% for the delivery of cash in between 2-months' time, details of which are below.

**Table 4: Forward starting loans**

	<b>Amount £m</b>	<b>Rate %</b>	<b>Loan Period (days)</b>	<b>Forward Period (Months)</b>
West Midlands Combined Authority	5.0	5.2	364	2
<b>Total borrowing</b>	<b>5.0</b>	<b>5.2</b>		

- 4.8 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.

### **LOBO loans**

- 4.9 On 1 April 2023 the Authority held £5m 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 Authority has the option to either accept the new rate and terms or to repay the loan at no additional cost.
- 4.10 As market interest rates have risen, the call option on the LOBO was exercised by the lender. The LOBO loan had a semi-annual call option date during the nine-month period to December 2023, and this was the date the loan was repaid. The loan was repaid from cash resources and as such there is no direct cost to the council.

## **5 Other Debt Activity**

- 5.1 During the first nine months of 2023/24 the council did not raise any additional capital finance for Highway Improvements via Private Finance Initiative. Total debt, other than borrowing, stood at £92.6 million on 31 December 2023, taking total debt to £274.7 million.

## **6 Treasury Management Investment Activity**

- 6.1 The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.
- 6.2 The council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first nine months of the year, the council's investment balances ranged between £23.5 million and £51 million. These arose due to timing differences between income and expenditure. The investment position is shown in Table 5 below.



**Table 5: Treasury Investment Position**

	<b>31.03.23 Balance</b>	<b>Net Movement</b>	<b>31.12.23 Balance</b>	<b>31.12.23 Income Return</b>	<b>31.12.23 Weighted Average Maturity days</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>	
Banks & Building societies (unsecured)	-	(5.0)	(5.0)	5.38%	10
Covered bonds (secured)	-	-	-	-	-
Govt (incl local authorities)	-	(5.0)	(5.0)	5.45%	60
Isle of Wight Council Pension Fund	-	-	-	-	-
Corporate bonds and loans	-	-	-	-	-
Money Market Funds	(27.0)	11.5	(15.5)	5.30%	1
Other Pooled Funds	-	-	-	-	-
<b>Total Investments</b>	<b>(27.0)</b>	<b>1.5</b>	<b>(25.5)</b>	<b>5.35%</b>	<b>14</b>

- 6.3 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.
- 6.4 As demonstrated by the liability benchmark in this report (see section 12), the council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of money market funds will be maintained to diversify risk and boost investment income.
- 6.5 The Bank Rate increased by 1%, from 4.25% at the beginning of April to 5.25% by the end of September. Short term rates peaked at 5.6% for 3-month rates and 6.6% for 12-month rates during the period, although these rates subsequently began to reduce towards the end of the period. Money Market Rates also rose, and interest rates ranged between 4.12% and 5.39% during the nine months to the end of December 2023.
- 6.6 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 6 below.

**Table 6: Investment Benchmarking – Treasury investments managed in-house**

	<b>Credit Score</b>	<b>Credit Rating</b>	<b>Bail-in exposure %</b>	<b>Weighted Average Maturity days</b>	<b>Rate of Return %</b>
31.12.2022	4.74	A+	100%	1	3.23%
31.03.2023	4.88	A+	100%	1	4.09%
30.06.2023	4.90	A+	100%	1	4.78%
30.09.2023	4.59	A+	88%	8	5.40%
31.12.2023	5.06	A+	80%	14	5.35%
<b>Similar LAs</b>	<b>4.91</b>	<b>A+</b>	<b>59%</b>	<b>42</b>	<b>5.13%</b>
<b>All LAs</b>	<b>4.80</b>	<b>A+</b>	<b>60%</b>	<b>11</b>	<b>5.08%</b>

- 6.7 **Statutory override:** In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for two years until 31 March 2025, but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. The Authority will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

## 7 Non-Treasury Investments

- 7.1 The definition of investments in CIPFA’s revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority 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).
- 7.2 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.
- 7.3 The council also held £41.0 million of such investments in
- directly owned property £34.8 million
  - shared ownership housing £4.9 million
  - loans to local businesses £1.3 million
- 7.4 A full list of the council’s non-treasury investments is available in the Isle of Wight Council Draft Statement of Accounts 2022/23 which is available on the council’s website.

7.5 These investments generated £1.0 million of income for the council, after taking account of direct costs. This represents a rate of return of 2.84%.

## 8 Treasury Performance

8.1 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 7 below.

**Table 7: Performance**

	<b>Actual</b>	<b>Budget</b>	<b>Over / Under</b>	<b>Actual</b>	<b>Benchmark</b>	<b>Over / Under</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>	<b>%</b>	<b>%</b>
Total Investment Income	(1.4)	(0.1)	(1.3)	4.90%	5.08%	-0.18%
Total Cost of Borrowing	7.2	8.8	(1.6)	3.84%		3.84%
<b>GRAND TOTAL</b>	<b>5.8</b>	<b>8.7</b>	<b>(2.9)</b>	n/a	n/a	n/a

## 9 Consultations

9.1 In December DLUHC published two consultations: a “final” consultation on proposed changes to regulations and statutory guidance on MRP closing on 16 February and a “call for views” on capital measures to improve sector stability and efficiency closing on 31 January 2024.

9.2 Draft regulations and draft statutory guidance are included in the MRP consultation. The proposals remain broadly the same as those in June 2022 – to limit the scope for authorities to

(a) make no MRP on parts of the capital financing requirement (CFR) and (b) to use capital receipts in lieu of a revenue charge for MRP.

9.3 In its call for views on capital measures, Government wishes to engage with councils to identify and develop options for the use of capital resources and borrowing to support and encourage ‘invest-to-save’ activity and to manage budget pressures without seeking exceptional financial support. Whilst Government has identified some options including allowing authorities to capitalise general cost pressures and meet these with capital receipts, there is no commitment to take any of the options forward.

## 10 Compliance

10.1 The Director of Finance and Section 151 Officer reports that all treasury management activities undertaken during the nine months to the end of December

2023 complied fully with the principles in the Treasury Management Code and the council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in Table 8 below.

**Table 8: Investment Limits**

	<b>2023/24 Maximum</b>	<b>31.12.23 Actual</b>	<b>2023/24 Counterparty Limit</b>	<b>Complied?</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>Yes/No</b>
Any single organisation, except the UK Government	13.5	5.0	<b>16.0</b>	✓
Money Market Funds	13.5	3.5	<b>16.0</b>	✓

10.2 Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in Table 9 below.

**Table 9: Debt and the Authorised Limit and Operational Boundary**

	<b>9 months to 31.12.23 Maximum</b>	<b>31.12.23 Actual</b>	<b>2023/24 Operational Boundary</b>	<b>2023/24 Authorise d Limit</b>	<b>Complied ?</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>		<b>Yes/No</b>
Borrowing	200.7	182.1	324.0	410.0	✓
PFI and Finance Leases	97.1	92.6	105.0	130.0	✓
<b>Total Debt</b>	<b>297.8</b>	<b>274.7</b>	<b>429.0</b>	<b>540.0</b>	✓

10.3 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.

## 11 Treasury Management Prudential Indicators

11.1 As required by the 2021 CIPFA Treasury Management Code, the council monitors and measures the following treasury management prudential indicators.

### **Liability Benchmark:**

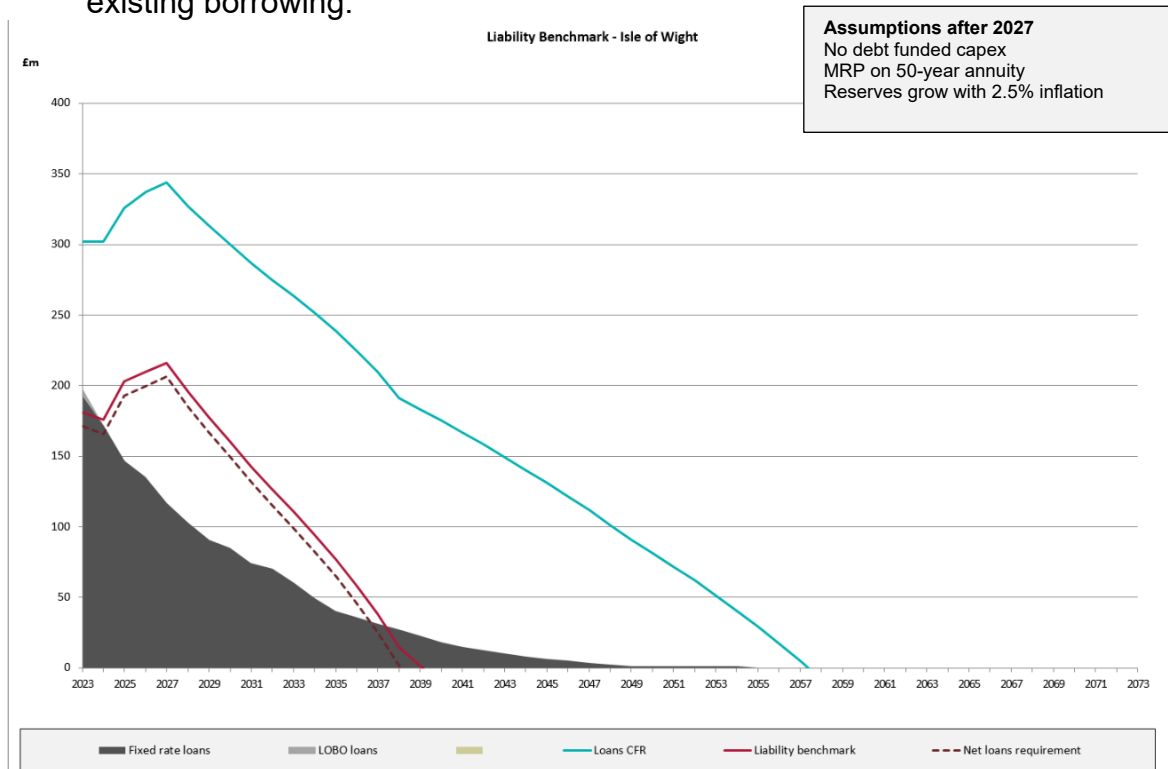
11.2 This indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It 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 of £10m required to manage day-to-day cash flow.

**Table 10: CFR and Liability Benchmark**

	<b>31.03.23 Actual £m</b>	<b>31.03.24 Forecast £m</b>	<b>31.03.25 Forecast £m</b>	<b>31.03.26 Forecast £m</b>
Loans CFR	302.2	301.8	326.0	337.3
Less Balance Sheet Resources	(131.0)	(136.1)	(133.2)	(137.5)
<b>Net Loans requirement</b>	<b>171.2</b>	<b>165.7</b>	<b>192.8</b>	<b>199.8</b>
Plus: Liquidity Allowance	10.0	10.0	10.0	10.0
<b>Liability Benchmark</b>	<b>181.2</b>	<b>175.7</b>	<b>202.8</b>	<b>209.8</b>
<b>Existing Borrowing</b>	<b>198.2</b>	<b>171.6</b>	<b>146.4</b>	<b>135.2</b>

- 11.3 Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by
- borrowing of £75.9 million over the period.
  - minimum revenue provision on new capital expenditure based on an average 50-year asset life.
  - income, expenditure, and reserves all increasing by inflation of 2.5% p.a.
- This is shown in the chart below together with the maturity profile of the council's existing borrowing.



- 11.4 Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.
- 11.5 As can be seen from above the forecast borrowing levels are substantially below the Loans CFR.

### **Maturity Structure of Borrowing**

- 11.6 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:

	<b>31.12.23 Actual</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Complied ?</b>
Under 12 months	15%	50%	0%	✓
12 months and within 24 months	3%	30%	0%	✓
24 months and within 5 years	16%	30%	0%	✓
5 years and within 10 years	15%	75%	0%	✓
10 years and above	52%	95%	0%	✓

- 11.7 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.

### **Long-term Treasury Management Investments**

- 11.8 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 limits are:

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>No Fixed Date</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Actual principal invested beyond year end	-	-	-	-
Limit on principal invested beyond year end	40	35	30	25
Complied?	✓	✓	✓	✓

- 11.9 Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.



## 12 Additional Indicators

### Security

12.1 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.

	<b>30.12.23 Actual £m</b>	<b>2023/24 Target £m</b>	<b>Complied?</b>
Portfolio average credit score	5.06	5.0	X

12.2 The average credit score has increased in the quarter ended 31 December 2023 because a proportion of the council's investments were held in an unsecured bank investment. This investment was only for a period of 29 days, and it matured in early January 2024.

### Liquidity

12.3 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.

	<b>30.12.23 Actual £m</b>	<b>2023/24 Target £m</b>	<b>Complied ?</b>
Total cash available within 3 months	27	21	✓

### Interest Rate Exposures

12.4 This indicator is set to control the council's exposure to interest rate risk. Bank Rate rose by 1.00% from 4.25% on 1 April to 5.25% by 31 December.

<b>Interest Rate Risk Indicator</b>	<b>30.12.23 Actual £m</b>	<b>2023/24 Limit £m</b>	<b>Complied ?</b>
Upper limit on one-year revenue impact of a 1% rise in interest rates	(0.1)	(0.3)	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	0.1	0.3	✓

12.5 For context, the changes in interest rates during the first nine months of the year were:

	31/03/2023	31/12/2023
Bank Rate	4.25%	5.25%
1-year PWLB certainty rate, maturity loans	4.78%	5.13%
5-year PWLB certainty rate, maturity loans	4.31%	4.19%
10-year PWLB certainty rate, maturity loans	4.33%	5.37%
20-year PWLB certainty rate, maturity loans	4.70%	4.90%
50-year PWLB certainty rate, maturity loans	4.41%	4.67%

12.6 The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.



Purpose: For Decision

## Committee Report

### ISLE OF WIGHT COUNCIL

Meeting	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
Date	<b>18 MARCH 2024</b>
Title	<b>STRATEGIC RISK PROFILE</b>
Report of	<b>CHIEF EXECUTIVE</b>

---

### 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(s)

2. That the strategic risks of the council as set out in Appendix 1 of the report be approved.

### Background

3. This is the quarter four update of the Strategic Risk Register within the 2023/24 financial year reporting period.
4. The application of the Risk Management Framework within the Isle of Wight Council has been subject to an internal audit revisit and has outcome of "Assurance." All policies that underpin the annual governance statement have been refreshed and reviewed, except for the finance policies which will be completed by the end of September.
5. Regular meetings to discuss, update and monitor service risks are being held across all service areas and are being refreshed against the new organisational structures that came into effect in October.

6. Strategic risks are referred to within the Quarterly Performance Management Reports (QPMR) that are presented to Cabinet.

### **Corporate Priorities and Strategic Context**

7. 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). QPMR quarter three report went to the cabinet meeting held on 8 February 2024.

### **Provision of affordable housing for Island Residents**

8. 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**

9. 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.
10. The relevant mitigations around this theme can be viewed in Appendix 1 (Risk 13 and Risk 17). A new risk has been added this period which addresses the wider risk of flood and coastal erosion, the impact on the Island's infrastructure, roads and utilities and the financial implications that could bring.
11. The climate decision wheel is neutral as this is a decision to accept a risk register in which the actions are managed by individual service areas and therefore the decision to accept the risk profile is not the point of impact.



Socio-economic Outer Ring	Scores
No Poverty	3
Zero Hunger	3
Good health and wellbeing	3
Quality Education	3
Gender Equality	3
Clean Water and Sanitation	3
Affordable and clean energy	3
Decent work and economic growth	3
Industry, Innovation and Infrastructure	3
Reduced inequalities	3
Sustainable cities and communities	3
Responsible consumption and production	3
Climate Action	3
Life below water	3
Life on land	3
Peace, justice and strong institutions	3
Partnerships for the Goals	3

Environment Inner Ring	Scores
Transport	3
Energy	3
Housing	3
Environment	3
Offset	3
Adaptation	3

## 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.

## 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. Appendix 1 - Risks 5 and 6 contain information relating to this priority. Strategic risk eighteen (the impact and ongoing mitigation of the ending of the partnership for children's services with Hampshire County Council) has now been closed. Mitigations to monitor service level agreements of the buy-back services have been added to the existing risks 5 and 6.

### **Corporate Aims**

16. 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.

### **Consultation And Engagement**

17. 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 the strategic risks as part of the QPMR.

### **Financial / Budget Implications**

18. There are no direct financial implications of approving the Strategic Risk Register.

### **Legal Implications**

19. 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 key features in the council's governance arrangements.

### **Equality And Diversity**

20. It is considered that there are no direct equality and diversity implications of this report for any of the protected groups. If the report introduces new or revised Policy or Procedure or is a significant decision, an equality impact assessment must be undertaken, and the results should be summarised in this section. Usually, the EIA should also be attached.

### **Options**

21. Option 1: That the strategic risks of the council as set out in Appendix 1 of the report be approved.



22. Option 2: That the strategic risks of the council as set out in Appendix 1 of the report are not approved.

### **Risk Management**

23. Updates to the risk profile are requested from all mitigation owners, these updates are then added to the strategic risk register and included in this report.
24. 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.
25. 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.
26. Updates made since the previous committee report are shown in italics in Appendix 1.
27. The strategic risk register was most recently circulated to Corporate Management Team (CMT) on 5 March 2024 and all risk owners reviewed the content and verified the current risk ratings.

### **Evaluation**

28. Option 1 is recommended from the information provided in the report and appendices is based on the views of the IWC Corporate Management Team.

### **Appendices Attached**

29. Appendix 1: Full Strategic Risk Register
30. Appendix 2: IWC Risk Scoring Matrix

Contact Point: Debbie Downer – Strategic Manager Organisational Intelligence,  
☎ 821000 e-mail [debbie.downer@iow.gov.uk](mailto:debbie.downer@iow.gov.uk)

WENDY PERERA  
*Chief Executive*

COUNCILLOR JONATHAN BACON  
*Cabinet Member for Children's Services,  
Education and Corporate Functions*

This page is intentionally left blank

**STRATEGIC RISK 1**

**Lack of financial resource and the ability to deliver the council’s in-year budget strategy.**

**Assigned to: Director of Finance and Section 151 Officer**

Inherent Score	Target Score	Current Score
<b>16 VERY HIGH</b>	<b>5 LOW</b>	<b>9 MEDIUM</b>
Previous scores		
Dec 23	Sep 23	June 23
<b>9 MEDIUM</b>	<b>9 MEDIUM</b>	<b>9 MEDIUM</b>
Mitigation in Place / Planned	Update on Mitigation Activity/ Risk Status in the period	Current Pressure Points this period
<p><b>Close monitoring of both Capital and Revenue spending (including income and savings targets)</b></p> <p><b>Position reviewed at the end of each quarter.</b></p> <p><b>The Council maintains a Corporate Contingency for general and unidentified risk at circa. £4m per annum</b></p> <p><b>Next review will be for Qtr. 4 Outturn 2023-24 following the update to cabinet.</b></p>	<p><b>Revenue Position</b></p> <ul style="list-style-type: none"> <li>As at quarter three the council is forecasting a potential pressure of 2.9m (1.6% of net revenue budget)</li> <li>This most significant pressures forecast are in Adults and Children’s Services.</li> <li>Other pressure areas include Leisure Centre income.</li> <li>Actions to mitigate these pressure areas are being developed.</li> <li>This pressure is currently being offset in part by savings in Treasury Management costs, concessionary fares, and the use of contingencies.</li> </ul> <p><b>Capital Position</b></p> <ul style="list-style-type: none"> <li>As at quarter three the capital budget remains fully funded with forecast expenditure of £35.0m and slippage of some £4.0m (representing budgeted spending that will now take place in 2024/25)</li> </ul>	<p><b>Revenue Position</b></p> <ul style="list-style-type: none"> <li>The main pressure areas are within Adults and Children’s Services with net forecast overspend of £5.4m and £3.7m respectively but being offset by Treasury Management, concessionary fares and contingencies.</li> <li>£2.1m of the pressure within Adult Social Care and the £0.3m shortfall in income associated with Leisure Services is related to the legacy impact from the pandemic. Therefore, a total of £2.4m will be funded from the Covid-19 contingency.</li> <li>It should also be noted that there is a risk to this forecast position as the financial year progresses and the impact of further inflationary and demand pressures due to the current economic climate.</li> </ul>

**STRATEGIC RISK 2****Lack of financial resource and the ability to deliver the council’s medium-term financial strategy.****Assigned to: Director of Finance and Section 151 Officer**

<b>Inherent Score</b>	<b>Target Score</b>	<b>Current Score</b>
<b>16 VERY HIGH</b>	<b>9 MEDIUM</b>	<b>9 MEDIUM</b>
<b>Previous scores</b>		
<b>Dec 23</b>	<b>Sept 23</b>	<b>June 23</b>
<b>9 MEDIUM</b>	<b>9 MEDIUM</b>	<b>9 MEDIUM</b>
<b>Mitigation in Place / Planned</b>	<b>Update on Mitigation Activity/ Risk Status in the period</b>	<b>Current Pressure Points this period</b>
<p><b>A full revision of the budget and future forecast and resulting savings requirements is presented to Full Council each February.</b></p> <p><b>To be presented to full council on 28/2/24</b></p>	<ul style="list-style-type: none"> <li>The process for setting the budget for 2023-24 was completed and approved by Full Council in February 2023</li> <li>Full Council approved an indicative savings requirement of £2m for the financial year 2024-25. The process to identify savings and prepare the budget for 2024-25 has commenced.</li> <li>The budget and associated indicative savings proposals will be presented to Full Council for approval in February 2024</li> </ul>	<ul style="list-style-type: none"> <li>Provisional funding levels from Government are not published until December each year and confirmed in January.</li> <li>Savings requirements are currently estimated at a minimum of £2m per annum for the next three financial years (2024-25, 2025-26, 2026-27)</li> <li>Service Pressures/ Demographic. Cost pressures including Inflation can be significant. The key pressures generally relate to Social Care (Adults &amp; Children’s) and inflation in particular utility costs and wage costs (including costs passed on from contractors/suppliers)</li> <li>Reserves need to be maintained at a level that provides sufficient financial resilience to enable the delivery of the Medium-Term Financial Strategy</li> <li>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.</li> <li>Island Deal – £1m was awarded for 2022-23 and 2023-24 to recognise the additional costs of delivering services on an Island. Future allocations for 2024-25 are still being discussed with Government in the absence of the delivery of the Fair Funding Review</li> <li>Capital Programme Resources – grant funding is very constrained. There is a reliance</li> </ul>

		<p>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.</p>
<p><b>Delivery of:</b></p> <p><b>Income generation / efficiencies</b></p> <p><b>Services reductions and early identification of unavoidable cost pressures/unachievable income targets to allow effective mitigation planning.</b></p> <p><b>Review - ongoing</b></p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• The budget process includes a series of meetings with Directors and Cabinet to explore unavoidable cost pressures &amp; undelivered savings, opportunities for income generation, efficiencies &amp; opportunities for transformation bids</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to fund new initiatives that require an initial subsidy. See note above regarding the conditions for borrowing.</li> <li>• 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 budget setting process and is subject to affordability.</li> </ul>
<p><b>Maintain ultimate Council Tax collection rate at 98.3% &amp; minimise the opportunity for fraud.</b></p> <p><b>Working closely with Portsmouth Fraud team to prosecute those who are accessing the public purse fraudulently.</b></p> <p><b>Review – Ongoing</b></p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Business Centre team working closely with services evaluating the key controls for financial transactions to ensure processes are robust, maximise income and remove any opportunity to defraud.</li> </ul>	<ul style="list-style-type: none"> <li>• The national DWP Legacy Benefits Transfer will impact on the vulnerable people who currently claim council tax support as they transition to universal credit. The transition is managed by DWP but there will be impact on people who cannot claim online who will come into the council for support. DWP have a dedicated phone line for enquiries and the business centre are prepped and planning for additional support requirements.</li> </ul>

<b>STRATEGIC RISK 3</b>		
<b>Insufficient staffing capacity and skills</b>		
<b>Assigned to: Director of Corporate Services</b>		
<b>Inherent Score</b>	<b>Target Score</b>	<b>Current Score</b>
<b>16 VERY HIGH</b>	<b>9 MEDIUM</b>	<b>9 MEDIUM</b>
<b>Previous scores</b>		
<b>Dec 23</b>	<b>Sep 23</b>	<b>June 23</b>
<b>12 HIGH</b>	<b>12 HIGH</b>	<b>12 HIGH</b>
<b>Mitigation in Place / Planned</b>	<b>Update on Mitigation Activity/ Risk Status in the period</b>	<b>Current Pressure Points this period</b>
<p><b>Monitoring Staff Capacity:</b></p> <p>To address sickness levels staff are being signposted to support services such as Maximus and our internal Mental Health Champions network.</p> <p>A quarterly people management paper reporting on absence is reviewed by Corporate Management Team.</p> <p>Review Date 31/03/24</p>	<ul style="list-style-type: none"> <li>New senior management restructure implemented; some recruitment remains ongoing.</li> <li>Phase 2 restructures continue to March 2024</li> </ul>	<ul style="list-style-type: none"> <li>Recruitment to vacant posts and notice periods to start date are impacting on some delivery timescales. This is being managed through the directorate boards and corporate management team.</li> </ul>
<p><b>Delivery of recruitment and retention strategy and action plan.</b></p> <p>Delivery Due date 31/03/24</p>	<ul style="list-style-type: none"> <li>We have 99 members of staff currently undertaking apprenticeship programmes up to post graduate level.</li> </ul>	<ul style="list-style-type: none"> <li></li> </ul>
<p><b>Regular monitoring, analysis, and review of organisational health indicators.</b></p> <p>Sickness absence information is delivered regularly to Corporate Management Team (monthly and quarterly).</p> <p>Key performance indicators are reported as part of the quarterly performance management report to cabinet.</p> <p>Human Resources attend service boards to discuss absence trends and interventions.</p> <p>Review date 31/03/24</p>	<ul style="list-style-type: none"> <li>Human resources management team have undertaken a review of the Absence &amp; Wellbeing Strategy Action Plan. Areas that have not moved on as planned are being brought to the next Corporate Managers Meeting to agree next steps and further actions required to support managers and teams.</li> </ul>	
<p><b>Workforce planning</b></p> <p>A workforce plan is being developed across the Council to identify key roles in service areas and the skills needed for the future</p>	<ul style="list-style-type: none"> <li>The apprenticeship levy is being fully utilised to support current staff to upskill or reskill as appropriate to support workforce planning.</li> <li>Short bitesize workforce planning sessions are</li> </ul>	<ul style="list-style-type: none"> <li>Workforce plans are in place for most area of the Council supporting succession planning and recruitment of hard to fill vacancies. Work continues with those</li> </ul>



<b>so services can plan training and enable succession planning.</b> <b>Completion Date 31/03/24</b>	<i>planned to refresh current plans in the light of reorganisation and reduced capacity.</i>	<i>areas that have not yet completed the work planning requirements.</i>
---	--	--

<b>STRATEGIC RISK 4</b>		
<b>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.</b>		
<b>Assigned to: Director of Corporate Services</b>		
<b>Inherent Score</b>	<b>Target Score</b>	<b>Current Score</b>
<b>16 VERY HIGH</b>	<b>6 LOW</b>	<b>12 HIGH</b>
<b>Previous scores</b>		
<b>Dec 23</b>	<b>Sep 23</b>	<b>June 23</b>
<b>12 HIGH</b>	<b>8 MEDIUM</b>	<b>8 MEDIUM</b>
<b>Mitigation in Place / Planned</b>	<b>Update on Mitigation Activity/ Risk Status in the period</b>	<b>Current Pressure Points this period</b>
<b>Leadership and management development</b>  <b>Review Date 31/03/24</b>	<ul style="list-style-type: none"> <li>• <i>Second Developing Leaders Programme has begun with 19 participants from across the Council.</i></li> <li>• <i>The first cohort continue to meet in their networks to progress their leadership journeys and will take part in the Culture Change programme action planning from April 2024</i></li> <li>• <i>IWC and NHS colleagues regularly meet to discuss shared leadership programmes. 5 NHS staff are attending our Coaching Conversations for Managers course this month and we have put in a joint bid to host 360 leadership assessments.</i></li> <li>• <i>The Leaders and Managers conversation held in October was well attended both face to face and an additional virtual session. It focused on refining our Customer Charter and the Culture Change Programme 2024.</i></li> <li>• <i>A new Departmental Managers' Team network has been set up to improve collaboration across the Council and offer peer support to senior leaders.</i></li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>
<b>Workforce development programmes/ Initiatives</b>  <b>Review Date 31/03/24</b>	<ul style="list-style-type: none"> <li>• <i>The Learning Management system is being used increasingly to design bespoke programmes of learning and career pathways for departments within the council and external audiences e.g., town, parish and community councils and the local resilience forum and safeguarding boards.</i></li> </ul>	
<b>Delivery of ONE COUNCIL Action Plan</b>  <b>Review Date 31/03/24</b>	<ul style="list-style-type: none"> <li>• <i>We have commissioned the South Central and West NHS organisational development team to work with us on assessing our current workforce culture and understand our ideal culture vision.</i></li> <li>• <i>We have undertaken an organisation wide survey of staff which engaged 752 people.</i></li> <li>• <i>Workshops are planned for February and March to engage more staff in the conversations. All this work will inform the new People and Organisational Development Strategy and action plan – July 2024</i></li> </ul>	

<b>STRATEGIC RISK 5</b>		
<b>Failure to improve educational attainment.</b>		
<b>Assigned to: Director of Children's Services (DSC).</b>		
<b>Inherent score</b>	<b>Target score</b>	<b>Current Score</b>
<b>16 VERY HIGH</b>	<b>6 LOW</b>	<b>11 MEDIUM</b>
<b>Previous Scores</b>		
<b>Dec 23</b>	<b>Sept 23</b>	<b>Jun 23</b>
<b>10 MEDIUM</b>	<b>10 MEDIUM</b>	<b>10 MEDIUM</b>
<b>Mitigation in Place / Planned</b>	<b>Update on Mitigation Activity/ Risk Status in the period</b>	<b>Current Pressure Points this period</b>
<p><b>Building on the improvements in standards.</b></p> <p><i>Early Years above National, KS2 improving but still below national, KS4 have seen improvements still below national, Post 16 uptake is positive.</i></p> <p><i>This data is initially released in summer. However, leadership and structural changes could affect risk so review quarterly.</i></p> <p><b>Review Date 31/08/24</b></p>	<ul style="list-style-type: none"> <li>• <i>New Education, Inclusion and Access leadership team now in post. Led by an experienced Local Authority officer with school improvement experience.</i></li> <li>• <i>High visibility of Officers across the school system to ensure school leaders anxieties regarding the partnership ending.</i></li> <li>• <i>Hampshire's school improvement service being bought back in, retaining a known approach for schools. This will be reviewed over the course of this year.</i></li> <li>• <i>Focused offer of support for schools, with school enhancing this with their own coordinated professional development offer, co-constructed with LA officers (IOW).</i></li> <li>• <i>Attendance is a concern not only on the Island but nationally as attendance has not returned to pre-pandemic levels.</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Financial pressures for small primary schools, which reduces their available resource and ability to offer a wider curriculum offer.</i></li> <li>• <i>Number of pupils with SEN placed inappropriately within mainstream, reduces schools' ability to effectively meet needs and reduces resources.</i></li> <li>• <i>Stability following the partnership ending.</i></li> </ul>
<p><b>Ensuring schools are good (as rated by Ofsted) for all children.</b></p> <p><b>Review Date 31/10/24</b></p>	<ul style="list-style-type: none"> <li>• <i>77% of all IOW schools are good.</i></li> <li>• <i>New Chief Inspector for OFSTED has re-trained all inspectors regarding well-being and mental health following the Ruth Perry suicide.</i></li> <li>• <i>Need to consider long term school improvement model.</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Small primary schools in particular are feeling the financial pressures keenly which is further reducing their available resource to tackle key issues that are required by Ofsted to be well developed, such as curriculum across all subjects in primary schools.</i></li> </ul>
<p><b>Leading a cohesive system for children based on effective partnership working.</b></p> <p><b>Continued development of strong relationships and</b></p>	<ul style="list-style-type: none"> <li>• <i>New Education, Inclusion and Access leadership team now in post. All managers working closely together, under one service director</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>The workforce pressures around driving and delivering the complex Safety Valve (SV) programme need careful</i></li> </ul>

<p><b>synergies between departments and agencies that work with children including social care, health, and the Special Educational Needs (SEN) service.</b></p> <p><b>Review Date 31/03/24</b></p>	<p><i>as opposed to 3, creating a more cohesive, unified team.</i></p> <ul style="list-style-type: none"> <li><i>• New relationships between various stakeholders due to partnership ended being developed.</i></li> <li><i>• Safety Valve (SV) agreement projecting significant potential deficits, which could fall on the council. A number of factors effect this, a Department for Education (DFE) free school, which is a significant part of safety valve agreement; DFE cannot find a sponsor; high numbers of pupils who have an Education Health Plan (EHP) who are in Education Otherwise Than at School (EOTAS); high levels of Independent and Non-Maintained Special Schools (INMSS) packages, due to a lack of specialist places on Island. Number of pupils placed inappropriately in mainstream due to lack of specialist places. There is a need to make mainstream schools more inclusive and better able to meet the needs of all children.</i></li> </ul>	<p><i>management, and great care needs to be taken to ensure that all Isle of Wight headteachers are involved and on board.</i></p> <ul style="list-style-type: none"> <li><i>• Not recruiting to the role that oversees the SV programme will present a substantial risk to its continuation.</i></li> </ul>
<p><b>Service Level Agreements are in place with Hampshire County Council to monitor performance for those areas that are being retained on a “buy-back” basis.</b></p>	<ul style="list-style-type: none"> <li><i>• Service risks are in place to monitor the individual service level agreements.</i></li> </ul>	<ul style="list-style-type: none"> <li><i>•</i></li> </ul>
<p><b>Safety Valve Programme and Place Planning:</b></p> <p><b>Corporate Management Team will receive a quarterly update in relation to Place Planning and Safety Valve to monitor progress of mitigations.</b></p>	<ul style="list-style-type: none"> <li><i>• Director of Childrens Services is collating the figures for the programme reporting and the potential debt inherited by IWC in the event of a school closure.</i></li> <li><i>• A position update will be provided to CMT at the end of April to set the baseline for the new financial year.</i></li> <li><i>• There is also a service risk report to enable monitoring of mitigations.</i></li> </ul>	<ul style="list-style-type: none"> <li><i>• Schools’ deficits plans are in place and will be further mitigated through the effective place planning programme.</i></li> </ul>

<b>STRATEGIC RISK 6</b>		
<b>Failure to identify and effectively manage situations where vulnerable children are subject to abuse.</b>		
<b>Assigned to: Director of Children's Services (DCS).</b>		
<b>Inherent score</b>	<b>Target score</b>	<b>Current Score</b>
<b>16 VERY HIGH</b>	<b>5 LOW</b>	<b>9 MEDIUM</b>
<b>Previous scores</b>		
<b>Dec 23</b>	<b>Sep 23</b>	<b>Jun 23</b>
<b>9 MEDIUM</b>	<b>9 MEDIUM</b>	<b>9 MEDIUM</b>
<b>Mitigation in Place / Planned</b>	<b>Update on Mitigation Activity/ Risk Status in the period</b>	<b>Current Pressure Points this period</b>
<p><b>Enhancement of our offer to recruit and retain includes a review of the market supplement, the appointment of additional Family Practitioners, investing in training apprentice, step up and general social work students, and the creation of a senior social worker role for career progression.</b></p> <p><b>Review Date 31/03/24</b></p>	<ul style="list-style-type: none"> <li>• There are nineteen apprentice social workers completing their training in Children's services. This includes all eight of CAST family practitioners and one family practitioner from CWD. One apprentice completed his training this year and is now employed by Children's Services, as a social worker.</li> <li>• Six apprentices are due to qualify as social workers in July 2024, one in Sept 2024, six in July 2025 and six in July 2026.</li> <li>• Two step-up students starting in January 2024 will qualify in July 2025.</li> <li>• Three final year social work students who are due to qualify in Spring 2024.</li> <li>• This should allow us to fill leaving social workers over the next few years with newly qualified staff who have completed their training with us and reduce our need to rely on agency workers.</li> <li>• We have invested in senior social workers to support these staff to develop and as our apprentices have a range of previous experience they are starting with a level of skill and experience to build upon.</li> <li>• Hampshire DCS and senior leaders do make decisions and have accountability for social care budgets. This will need to transfer to the new senior management arrangements agreed for IOW.</li> <li>• The market supplement which began at start of 2023 was reviewed in November 2023. The enhanced pay to social workers in</li> </ul>	<ul style="list-style-type: none"> <li>• The recruitment of both permanent and agency social workers remains a challenge locally and nationally.</li> <li>• The recruitment of in-house foster carers remains a pressure. We need a range of carers to match to meet the needs of children. Work is ongoing to progress the Modernising Placements Programme.</li> <li>• The lack of private rented accommodation and social housing has meant young people who are ready to move on from our commissioned supported accommodation are unable to do so. With the withdrawal of the supporting people grant by Housing the cost of supported accommodation has shunted to children's services. This has become a financial pressure and work is ongoing with providers to obtain affordable accommodation with some success, but more is required.</li> </ul>

	<p>CAST and children in care has reduced the turnover rate from 27% to 7%.</p> <ul style="list-style-type: none"> <li>• IOW are not in any partnership arrangement with Hampshire in relation to agency staff used in social care teams. HCC have, at times of staff shortages and subsequent performance challenges, seconded staff from HCC to IOW which has provided the ability to add capacity at short notice. This will not be possible after the partnership has ended and therefore there is an associated risk here.</li> <li>• A new national marketing recruitment campaign involving social media has been developed to recruit permanent social workers. The proposed changes by the DfE to legislation on the use of agency social workers are to encourage a reduction on the reliance of agency social worker by restricting the terms by which local authorities engage them.</li> <li>• IW Service Managers are beginning to prepare Team Manager's to deputise for them to add resilience in the Service Manager cohort, similar arrangements are in place to support the area director.</li> <li>• The social worker training programme (first year) and second year in practice is undertaken in partnership with HCC. Post partnership this will be provided locally.</li> <li>• The Isle of Wight approach to 'grow our own social workers is successful with the new family practitioners all training to be social workers. Once qualified and employed as social workers, a further eight family practitioner roles will be advertised as a route in being a social worker.</li> </ul>	
<p><b>Corporate Parenting Board</b></p> <p><b>Corporate parenting board meetings taking place quarterly and includes contributions from health, education and social care in children and adults.</b></p> <p><b>Review Date 31/03/24</b></p>	<ul style="list-style-type: none"> <li>• All participation events and programmes are led by IWC independently of HCC and therefore are not impacted by the ending of the partnership.</li> <li>• The Corporate Parenting Board is an IWC member led Board and again operates independently from HCC and the partnership arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>• We are currently working on increasing attendance with a particular focus on more councillors, more partners, and encouraging children to attend to represent the HYPE (Hear Young People's Experience) care experienced children and young people's group.</li> </ul>



<p><b>Quarterly Performance reports are viewed regularly by the Policy and Scrutiny Committee for Children's Services, Education and Skills.</b></p> <p><b>Review Date 31/03/24</b></p>	<ul style="list-style-type: none"> <li>• All managers review daily/weekly and monthly performance management data to maintain oversight over practice and performance and to identify and address areas for improvement.</li> </ul>	<ul style="list-style-type: none"> <li>• The sustained Increase in demand (referrals/ assessments) puts pressure on the service to maintain high levels of performance. Increased investment will ensure an increase in capacity to meet these increased and high rates of demand.</li> </ul>
<p><b>Caseloads continue to be scrutinised by senior management daily and fortnightly by the Director of Childrens Services and Deputy Director.</b></p> <p><b>Review Date 31/03/24</b></p>	<ul style="list-style-type: none"> <li>• <i>The daily review of caseloads is undertaken locally by IOW Managers.</i></li> <li>• <i>The fortnightly review with the DCS and senior management will need to change and transfer to the new leadership arrangements that are agreed for IOW.</i></li> </ul>	<ul style="list-style-type: none"> <li>• There continues to be an increase in demand and caseloads had been higher as a result, but additional recruitment of social workers and agency social workers and family practitioners has moderated increases.</li> </ul>
<p><b>Quality assurance framework (monthly case audits concentrating on quality of practice).</b></p> <p><b>The senior management team also undertake an audit of audits on a monthly basis to quality assure the auditing process.</b></p> <p><b>Review Date 31/03/24</b></p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• The regular auditing and quality assurance programme is undertaken locally by IOW Managers.</li> <li>• The monthly senior management review of auditing, and incorporation into the broader quality assurance framework was undertaken with the Hampshire leadership team. This will transfer and be reviewed by the new leadership arrangements that are agreed for IOW.</li> </ul>	
<p><b>Annual self- assessment and annual conversation between Director and Ofsted.</b></p> <p><b>The Quality Improvement Plan was reviewed and updated in July 2023 and the self-assessment for 2023 has been completed.</b></p> <p><b>Review Date 31/03/24</b></p>	<ul style="list-style-type: none"> <li>• The next self-assessment is due in January 2024, within the window of the current partnership. The self-assessment will be completed in partnership with the current Hampshire leadership as per previous years and submitted.</li> <li>• The date of the next annual conversation has not been confirmed by Ofsted but is likely to be after the partnership has ended on 31 January and will therefore be led by the new Children's Services leadership for IOW.</li> <li>• Children's Services had a fully graded 2 week Ofsted Inspection of Local Authority Children's Services w/c 23 October 2023. The final moderated report and judgment was published on 15 December 2023. <i>The judgement</i></li> </ul>	

	<p><i>was overall remaining good but with improvements required for children in need of protection. An Ofsted action plan has been drafted and is being implemented.</i></p>	
<p><b>Multi-agency integrated commissioning board</b></p> <p><b>The Integrated Care Board (ICB) operates across the whole Hampshire and IOW geographical area and both IWC and HCC will continue to work with health partners as we currently do.</b></p> <p><b><i>There will be an options paper prepared for April to review the arrangements for services currently subject to SLA's and to propose options in relation to future plans.</i></b></p> <p><b>Review Date 31/03/24</b></p>	<ul style="list-style-type: none"> <li>• The partnership between HCC and IOW Childrens Services Department will not have an impact on the ICB operating model.</li> <li>• There are no joint commissioning arrangements for large scale / core operational functions between the two Local Authorities.</li> <li>• There are some smaller scale functions that are jointly commissioned, such as the contract for Foster Talk (advocacy service) and Community Care Inform.</li> <li>• <i>There are some Hampshire services that the Isle of Wight will continue to buy back for the first 12 months after the conclusion of the partnership before local decisions are made about such provision.</i></li> </ul>	

<b>STRATEGIC RISK 7</b>		
<b>Insufficient staffing capacity and skills within adult social care and housing services.</b>		
<b>Assigned to: Director of Adult Social Care</b>		
<b>Inherent score</b>	<b>Target score</b>	<b>Current Score</b>
<b>14 VERY HIGH</b>	<b>6 LOW</b>	<b>8 MEDIUM</b>
<b>Previous scores</b>		
<b>Dec 24</b>	<b>Sep 23</b>	<b>Jun 23</b>
<b>6 LOW</b>	<b>8 MEDIUM</b>	<b>8 MEDIUM</b>
<b>Mitigation in Place / Planned</b>	<b>Update on Mitigation Activity/ Risk Status in the period</b>	<b>Current Pressure Points this period</b>
<p><b>Addressing especially hard to recruit roles.</b></p> <p><b>Robust recruitment plan now in place to support recruitment to 'hard to fill' roles.</b></p> <p><b>Review Date 31/03/24</b></p>	<ul style="list-style-type: none"> <li><i>Recruitment activity continues to provide positive results with vacancies being filled in the majority of cases.</i></li> </ul>	<ul style="list-style-type: none"> <li>Against a backdrop of a national skills shortage in this area, the service still has vacancies in a number of key specialist roles but continues to advertise and promote the roles whilst also training existing staff to undertake these duties.</li> </ul>
<p><b>ASC recruitment and retention</b></p> <p><b>Review Date 31/03/24</b></p>	<ul style="list-style-type: none"> <li>Vacancy monitoring is reviewed monthly.</li> </ul>	<ul style="list-style-type: none"> <li>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).</li> </ul>
<p><b>Development of a departmental out of hours social work provision.</b></p> <p><b>Due date: April 2024</b></p>	<ul style="list-style-type: none"> <li><i>Consultation concluded.</i></li> <li><i>New stand-by arrangements will be in effect from 01/04/2024.</i></li> <li><i>Working party with trade union in place to support transition.</i></li> <li><i>From 01/04/2024 the councils' pay policy will prescribe the stand-by session payment and the rate of pay for call-out activities.</i></li> </ul>	<ul style="list-style-type: none"> <li><i>Corporate review of Pay Policy underway.</i></li> <li><i>New standby rates will impact on staff willingness to participate in stand-by rota.</i></li> <li><i>Union involved and potential ballot of both ASC and Housing staff if new standby rate felt to be insufficient</i></li> </ul>

<b>STRATEGIC RISK 8</b>		
<b>Failure to identify and effectively manage situations where vulnerable adults are subject to abuse.</b>		
<b>Assigned to: Director of Adult Social Care and Assistant Director of Operations</b>		
<b>Inherent score</b>	<b>Target score</b>	<b>Current Score</b>
<b>16 VERY HIGH</b>	<b>6 LOW</b>	<b>8 MEDIUM</b>
<b>Previous scores</b>		
<b>Dec 23</b>	<b>Sep 23</b>	<b>June 23</b>
<b>8 MEDIUM</b>	<b>8 MEDIUM</b>	<b>8 MEDIUM</b>
<b>Mitigation in Place / Planned</b>	<b>Update on Mitigation Activity/ Risk Status in the period</b>	<b>Current Pressure Points this period</b>
<b>Protecting Vulnerable Adults</b> <b>Review Date 31/03/24</b>	<ul style="list-style-type: none"> <li>Targeted activity in relation to reviews to be refreshed to focus on more sustainable programmes of work for the future.</li> <li>A review of our safeguarding service is underway focusing on more effective ways to triage high volumes of referrals which do not meet the appropriate threshold.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>'Deprivation of Liberty Safeguards' (DoLS) backlog clearance programme</b> <b>Review Date 31/03/24</b>	<ul style="list-style-type: none"> <li>The number of applications awaiting assessment continues to be managed and robust triage systems are in place.</li> </ul>	
<b>Mental Health Action Plan</b> <b>Review Date 31/03/24</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>	

**STRATEGIC RISK 9**

Failure to champion the 'place-based agenda' within the Integrated Care System (ICS) to ensure that the needs of our citizens are being appropriately considered within the Integrated Care Board (ICB) agenda.

Assigned to: Director of Adult Social Care

Inherent score	Target score	Current Score
16 VERY HIGH	MEDIUM 9	16 VERY HIGH
Previous scores		
Dec 23	Sep 23	June 23
16 VERY HIGH	N/A	N/A
Mitigation in Place / Planned	Update on Mitigation Activity/ Risk Status in the period	Current Pressure Points this period
<ul style="list-style-type: none"> <li>Development of transfer agreement between NHS and IWC for care and support and funding arrangements</li> </ul> <p><i>Review Date: 29/02/24</i></p>	<ul style="list-style-type: none"> <li>Strengthening the discharge from hospital process to ensure that the right provision is in place for people and to reinforce a home first approach.</li> <li>Development of the Advocacy support available for people on Continuing Health Care (CHC)</li> <li>Reviewing our processes to access Continuing Health Care funding.</li> <li>Working a joint funding protocol between the Isle of Wight Council and the Integrated Care Board (ICB).</li> <li>Ensuring we are maximising the income of people receiving services through our financial assessment processes.</li> </ul>	<ul style="list-style-type: none"> <li>The Integrated Care Board (IBC) budget is "targeting" savings against CHC services.</li> <li>ICB budget challenges are impacting on its ability to discharge its health functions.</li> <li>Wider NHS integration (off island) is affecting the ability to develop and maintain effective relationships and access to the people we need work closely with.</li> </ul>

<b>STRATEGIC RISK 10</b>		
<b>Independent Social Care Sector Sustainability (Care Homes and Home Care)</b>		
<b>Assigned to: Director of Adult Social Care</b>		
<b>Inherent score</b>	<b>Target score</b>	<b>Current Score</b>
<b>16 VERY HIGH</b>	<b>6 LOW</b>	<b>9 MEDIUM</b>
<b>Previous scores</b>		
<b>Dec 23</b>	<b>Sep 23</b>	<b>June 23</b>
<b>9 MEDIUM</b>	<b>9 MEDIUM</b>	<b>9 MEDIUM</b>
<b>Mitigation in Place / Planned</b>	<b>Update on Mitigation Activity/ Risk Status in the period</b>	<b>Current Pressure Points this period</b>
<b>IW Market Position Statement</b> <i>Due date 31/03/2024</i>	<ul style="list-style-type: none"> <li><i>Refreshed Market Position Statement is in development and approaching completion. Completion planned 31/03/2024.</i></li> </ul>	<ul style="list-style-type: none"> <li>Independent provider fragility</li> <li>Lack of central government funding</li> <li>Affordability of care based on increased levels of dependency in the community</li> </ul>
<b>Levels of Fees</b> <b>Review date 31/03/24</b>	<ul style="list-style-type: none"> <li>Planning for 2024/2025 financial year is underway.</li> </ul>	
<b>Workforce pressures</b> <b>Review Date 31/03/24</b>	<ul style="list-style-type: none"> <li>Locally recruitment pressures have eased over the past few months.</li> </ul>	<ul style="list-style-type: none"> <li>We continue to monitor the situation and to collaborate with providers around business continuity plans and safe staffing levels.</li> </ul>
<b>Market Capacity – Homecare</b> <b>Review Date 31/03/24</b>	<ul style="list-style-type: none"> <li>Capacity is improving due to increased recruitment success <i>however workforce levels continue to be monitored</i> with robust business continuity plans in place to provide emergency care and support if necessary.</li> </ul>	



**STRATEGIC RISK 11**

**Failure of the Highways PFI contract resulting in significant financial and operational disruption for the council and its residents**

**Assigned to: Director of Neighbourhoods**

Inherent score	Target score	Current Score
16 VERY HIGH	5 LOW	9 MEDIUM
Previous scores		
Dec 23	Sep 23	Jun 23
9 MEDIUM	9 MEDIUM	7 MEDIUM
Mitigation in Place / Planned	Update on Mitigation Activity/ Risk Status in the period	Current Pressure Points this period
<p><b>PFI – Establish and deliver available savings.</b></p> <p><b>Review Date: 31/03/24</b></p>	<ul style="list-style-type: none"> <li>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.</li> <li><i>Potential savings options in excess of the additional £400k requirement have been identified and are being developed to put to put before the PFI Board for consideration.</i></li> </ul>	<ul style="list-style-type: none"> <li>Achieving savings from Schedule 32 schemes, in the region of £200k pa, continues to <b>fall further behind</b> 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.</li> <li>23/24 saving are £1.9m</li> </ul>
<p><b>PFI - Successfully resolve anomalies in the contract specification.</b></p> <p><b>Review Date: 31/03/24</b></p>	<ul style="list-style-type: none"> <li>Due to the size, complexity, and diversity of the contract there will be ongoing contractual issues throughout the contract, which will be kept under regular review as ongoing business activities.</li> </ul>	

<b>STRATEGIC RISK 12</b>		
<b>Failure of the Waste contract resulting in significant financial and operational disruption for the council and its residents</b>		
Assigned to: Director of Neighbourhoods		
<b>Inherent score</b>	<b>Target score</b>	<b>Current Score</b>
<b>16 VERY HIGH</b>	<b>5 LOW</b>	<b>12 HIGH</b>
<b>Previous scores</b>		
<b>Dec 23</b>	<b>Sep 23</b>	<b>Jun 23</b>
<b>8 MEDIUM</b>	<b>8 MEDIUM</b>	<b>8 MEDIUM</b>
<b>Mitigation in Place / Planned</b>	<b>Update on Mitigation Activity/ Risk Status in the period</b>	<b>Current Pressure Points this period</b>
<b>Regular monitoring of performance of the contract</b> <b>Review Date: 31/03/24</b>	<ul style="list-style-type: none"> <li>Recycling rates and service satisfaction levels remain high.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Service Manager position is recently vacant which leaves a significantly lower capacity to monitor performance management and capital infrastructure. Recruitment in process.</li> </ul>
<b>Ensure the delivery of Key Facilities through robust contract management.</b> <b>Due Date 31/03/24</b>	<ul style="list-style-type: none"> <li>The Energy from Waste plant is currently operating and generating power as the commission tests are worked through.</li> <li>The final test certification is expected to be achieved in the end of March 2024.</li> <li>All and any costs incurred by the delay will be met by the service provider.</li> <li>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.</li> <li>The ERF processed a total of 1,881 tonnes. This is the best performance so far and a significant improvement from the previous record of 1,220 tonnes in September 2023.</li> <li>The data for the month shows a total electricity export of 386,663 kWh, which is equivalent to the energy for one week of 7,030 average households</li> </ul>	<ul style="list-style-type: none"> <li>Construction risk and cost of residual waste above agreed contract rates sits with <b>Ferrovial SE.</b></li> <li>There is a risk further faults may occur and lead to plant shutdown and more delays. This is a risk to the acceptance test.</li> </ul>

<b>STRATEGIC RISK 13</b>		
<b>Achieving the vision for the Island</b>		
<b>Assigned to: Chief Executive</b>		
<b>Inherent score</b>	<b>Target score</b>	<b>Current Score</b>
<b>14 VERY HIGH</b>	<b>6 LOW</b>	<b>12 HIGH</b>
<b>Previous scores</b>		
<b>Dec 23</b>	<b>Sep 23</b>	<b>Mar 23</b>
<b>12 HIGH</b>	<b>13 HIGH</b>	<b>12 HIGH</b>
<b>Mitigation in Place / Planned</b>	<b>Update on Mitigation Activity/ Risk Status in the period</b>	<b>Current Pressure Points this period</b>
<b>Isle of Wight Corporate Plan 2021-25</b> <b>Review Date 31/06/24</b>	<ul style="list-style-type: none"> <li>Progress against Corporate Plan is reported in the Quarterly Performance Management Report to Cabinet.</li> </ul>	<i>Corporate plan priorities for 2024/25 have been refreshed and restated.</i>
<b>Quarterly Performance Management Report (QPMR) updates</b> <b>Review Date 31/04/24</b>	<ul style="list-style-type: none"> <li>Regular reporting of finance and performance set against the corporate plan activities and metrics is made to the Cabinet and various committees with a scrutiny function.</li> <li>The 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.</li> </ul>	<ul style="list-style-type: none"> <li>A full review of QPMR metrics and redesign of the format of the report is underway with service directors and key stakeholders. Any proposed change in metrics must be agreed with the cabinet member and corporate management team.</li> </ul>
<b>Strategic capacity and interventions</b> <b>Review Date 31/06/24</b>	<ul style="list-style-type: none"> <li>Key current themes are affordable housing, biosphere, and net zero; economic regeneration and reducing poverty.</li> </ul>	<ul style="list-style-type: none"> <li></li> </ul>
<b>Robust Programme Management</b> <b>Review Date 31/04/24</b>	<ul style="list-style-type: none"> <li>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.</li> <li>A comprehensive Project Management training pathway is in place including online internal, and external courses.</li> </ul>	<ul style="list-style-type: none"> <li><i>Changes that have come into effect as a result of the organisational redesign require a refresh of governance arrangements to ensure assurance of projects that are continuing.</i></li> </ul>
<b>Strategic risk register</b> <b>Review Date 31/03/24</b>	<ul style="list-style-type: none"> <li>Additional support to the directorate service boards has raised the profile of service risk reporting, all directorates are engaging in the process to improve recording and reporting at service level.</li> </ul>	<ul style="list-style-type: none"> <li><i>Childrens services are being supported to bring risks into the Isle of Wight risk management system now that the Hampshire partnership has ended. This will improve the oversight and local management of key risks.</i></li> </ul>
<b>Increase in levels of unmet Housing Needs – Prevention</b> <b>Review Date 31/03/24</b>	<ul style="list-style-type: none"> <li>Focus continues to ensure effective management of our bespoke accommodation for which reduces the likelihood that the IWC will need to place households</li> </ul>	

	<p>off island and in unsuitable accommodation options as defined by legislation.</p> <ul style="list-style-type: none"> <li>Progress continues to be made with the purchase of nine units of refugee housing to be used for families presenting as homeless.</li> </ul>	
<p><b>Increase in levels of unmet Housing Needs – Intervention.</b></p> <p><b>Acquisitions Strategy approved at Cabinet in July 2023.</b></p> <p><b>Review Date 31/03/24</b></p>	<ul style="list-style-type: none"> <li>A Service Plan has been developed to capture actions required to maintain and improve the service.</li> </ul>	<ul style="list-style-type: none"> <li>The shortage of accommodation, social and private sector, is impacting on the number of families in temporary accommodation and the length of time families are in Bed &amp; Breakfast.</li> <li>A Bed &amp; Breakfast Elimination Plan has been agreed with DLUHC <i>and monitoring is in place</i></li> </ul>
<p><b>Increase in levels of unmet Housing Needs - Recovery</b></p> <p><b>Review Date 31/03/24</b></p>	<ul style="list-style-type: none"> <li>Brownfield Land Release Fund (BLRF) activity continues and is progressing.</li> <li>A further bid for BLRF 2 was submitted for three further sites. This bid was successful, and work is progressing for the disposal of these sites.</li> <li>Engagement with Registered Providers is in place and the number of social housing units being and to be built is improving.</li> </ul>	<ul style="list-style-type: none"> <li><i>Potential bids for BLRF 3 being assessed and the deadline for bidding is 14/02/24.</i></li> </ul>
<p><b>Delivery of the Climate Change and Environment Strategy</b></p> <p><b>Annual Review 31/01/25</b></p>	<ul style="list-style-type: none"> <li>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</li> <li>As part of the “Green Corridor” the council was successful in its bid bidding for £14 million from the governments next round of levelling up funding. This funding is proposed to be used on a “green link corridor” between Ryde and Yarmouth which will include several projects aimed at reducing car journeys and making routes both in town and between town more easily navigable for cyclist and walkers.</li> </ul>	<ul style="list-style-type: none"> <li><i>The Climate and Environment Manager started 1 January 2024.</i></li> </ul>
<p><b>The Corporate Management Team provide leadership and focus on maintaining service delivery during periods of potential political sensitivity.</b></p>	<ul style="list-style-type: none"> <li>Audit and Governance Committee discussion led to reworking of the mitigations in place.</li> <li>Changes in the administration for the leader and cabinet roles were made on 20<sup>th</sup> September 2023.</li> </ul>	<ul style="list-style-type: none"> <li><i>The potential for a general election in May, may affect the decision making and could lead to delay in progressing some more difficult areas of business.</i></li> </ul>

<p><b>Robust decision-making processes are in place to support effective decision making through the cabinet process.</b></p> <p><b>Isle of Wight Council has regard to the Local Government Association (LGA) Guidance relating to local authorities which do not have any overall political control.</b></p> <p><b>Review: 31/03/24</b></p>	<ul style="list-style-type: none"> <li>• During a debate at full council all councillors agreed to more collaborative working. The leader made an offer for several informal cross-party groups to be developed.</li> </ul>	
<p><b>Development of the Anti-poverty Strategy.</b></p> <p><b>Completion Date: 31/10/24</b></p>	<ul style="list-style-type: none"> <li>• <i>A decision report was presented to Corporate Management Team in December.</i></li> <li>• <i>A public consultation exercise will be undertaken to capture the priorities of the people we serve.</i></li> <li>• The strategy vision has been developed with key stakeholders.</li> <li>• Key priorities within the strategy have been identified with key stakeholders to feed into the strategy development.</li> </ul>	<ul style="list-style-type: none"> <li>• Ensuring the correct level of engagement from our communities to inform the strategy.</li> </ul>

<b>STRATEGIC RISK 14</b>		
<b>Additional demands placed upon the Isle of Wight Council and partners owing to a pandemic or similar large-scale outbreak.</b>		
<b>Assigned to: Director of Public Health</b>		
<b>Inherent score</b>	<b>Target score</b>	<b>Current Score</b>
<b>16 VERY HIGH</b>	<b>12 HIGH</b>	<b>12 HIGH</b>
<b>Previous scores</b>		
<b>Dec 23</b>	<b>Sep 23</b>	<b>Jun 23</b>
<b>12 HIGH</b>	<b>12 HIGH</b>	<b>12 HIGH</b>
<b>Mitigation in Place / Planned</b>	<b>Update on Mitigation Activity/ Risk Status in the period</b>	<b>Current Pressure Points this period</b>
<p><b>Preparedness for other novel infectious disease (including COVID-19)</b></p> <p><b>The Public Health team regularly reviews surveillance data on novel/emerging infectious diseases provided by national and regional teams within UKHSA.</b></p> <p><b>The Public Health and Emergency Management Teams continue to take part in relevant exercises testing preparedness and response arrangements.</b></p> <p><b>Review Date 01/06/2024</b></p>	<ul style="list-style-type: none"> <li>• The Public Health (PH) team will work closely with the IWC Emergency Management Team to ensure that the new Pandemic Framework is linked into other Council and Multi-agency Emergency Response Plans. The teams will continue to take part in relevant exercises testing preparedness and response arrangements to large scale infectious disease outbreaks and pandemic led by the HIOW LRF or other organisations, e.g., <i>United Kingdom Health Security Agency (UKHSA)</i>.</li> <li>• The team’s annual learning and development programme includes training and capacity-building to ensure retention of capability to respond to a pandemic.</li> <li>• <i>In December 2023, the IWC Pandemic Influenza Plan was ‘stood down’ and replaced by a generic IWC Pandemic Framework. The framework has been developed considering lessons learnt from the COVID-19 pandemic response. Local preparedness and response to larger incidents/outbreaks will be exercised in 2024 to ensure practical arrangements are tested.</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>The public health team is preparing and ensuring arrangements are in place to respond to a possible rise in measles cases in the Southeast, working with partners across the health system. This is in the context of UKHSA declaring a national standard incident in January 2024.</i></li> </ul>
<p><b>Partner Organisations</b></p> <p><b>Review Date 31/06/24</b></p>	<ul style="list-style-type: none"> <li>• Reviewing the epidemiological data and communication with partners to establish pressures, including: <ul style="list-style-type: none"> <li>- United Kingdom Health Security Agency (UKHSA)</li> <li>- NHS – Trust and CCG</li> <li>- Multi-agency representative on the Island Resilience Forum</li> <li>- HIOW Integrated Care System</li> <li>- IOW Integrated Care Partnership</li> <li>- Local Resilience Forums (LRF)</li> <li>- Other Local Authorities</li> <li>- His Majesty’s Prison IOW</li> </ul> </li> </ul>	
<p><b>Internal arrangements</b></p> <p><b>Review Date 31/06/24</b></p>	<ul style="list-style-type: none"> <li>• The Public Health team’s Health Protection Standard Operating Procedure (SOP) was reviewed and refreshed in May 2023. This</li> </ul>	



	<p>provides a framework for the internal, public health response to a notification of an outbreak or incident involving an infectious disease. In the early stages of a pandemic, this SOP <b>may</b> provide the framework for initial response arrangements.</p> <ul style="list-style-type: none"> <li>• A Public Health Incident Response Plan was produced specifically for the Public Health team. This combined with staff receiving specific training set to role allocations will enhance the team's overall response capability.</li> <li>• The Public Health Incident Response Plan is linked to the authority's own existing response arrangements and those of the HIOW Local Resilience Forum to allow greater prominence within the established command-and-control structures.</li> </ul>	
<p><b>External arrangements</b> <b>Review Date 31/06/24</b></p>	<ul style="list-style-type: none"> <li>• Oversight of health protection matters is provided by the Health Protection Board, chaired by the Director of Public Health. The main areas of focus for the Board are communicable diseases and vaccination. The Board brings together Council departments and external partners who are key to protecting the health of our local population and is a forum to jointly plan and coordinate activity on all health protection issues.</li> <li>• An Island Tactical Co-ordination Group (ITCG) will convene at a multi-agency level, including police, fire, IOW NHS Trust, ambulance, council, public health, Military, ferry companies, utilities, and prisons in case of a multi-agency response at a local level.</li> <li>• The HIOW Local Health Resilience Partnership holds the strategic risk overview of all health-related risks across HIOW LRF, including a pandemic risk. A HIOW LRF Pandemic Framework was published in early 2023. The IWC Emergency Management and Public Health team have inputted into the consultation period and will actively participate in the schedule of exercises which will be led by the HIOW LRF.</li> <li>• The Public Health team will maintain awareness of the partnership between the IOW NHS Trust and PHUT and FUSION and work through the HIOW LHRP and LRF to ensure that impact of organisational changes on pandemic preparedness on the IOW is considered.</li> </ul>	

<b>STRATEGIC RISK 15</b>		
<b>Dealing with threats to business continuity (including cyber incidents)</b>		
<b>Assigned to: Chief Executive</b>		
<b>Inherent score</b>	<b>Target score</b>	<b>Current Score</b>
<b>12 HIGH</b>	<b>6 LOW</b>	<b>9 MEDIUM</b>
<b>Previous scores</b>		
<b>Dec 23</b>	<b>Jun 23</b>	<b>Jun 23</b>
<b>9 MEDIUM</b>	<b>9 MEDIUM</b>	<b>9 MEDIUM</b>
<b>Mitigation in Place / Planned</b>	<b>Update on Mitigation Activity/ Risk Status in the period</b>	<b>Current Pressure Points this period</b>
<b>Revised Business Continuity Plans completed.</b>  <b>Review Date 31/03/24</b>	<ul style="list-style-type: none"> <li>Plan reviews to be undertaken every 12 months and table-top tested at planned intervals.</li> <li>Business Continuity Policy reviewed and updated August 2023, to reflect learning from Covid 19 and making the policy more generic in approach, preventing the need to amend the document as result of future restructures.</li> <li>Review of Business Continuity Plans, in respect of reporting structures, to be undertaken in April 2024, in line with timescales for corporate restructure phase 2</li> </ul>	<ul style="list-style-type: none"> <li>Learning and recommendations from the debrief into the Council's response to adverse weather October &amp; November 2023 <i>and the multi-agency "Livex" event held in October 2023</i> to be considered in future reviews and exercising of Business Continuity Plans.</li> </ul>
<b>Secure paper copies of Revised Business Continuity Plans (BCP).</b>  <b>Review date 31/03/24</b>	<ul style="list-style-type: none"> <li>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.</li> <li>All service areas have been reminded of this requirement.</li> </ul>	
<b>IWC - Cyber Incident Response Plan (developed and maintained by ICT)</b>  <b>Plan Review date 31/03/24</b>	<ul style="list-style-type: none"> <li>A Cyber Incident Response Plan (CIRP) 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.</li> <li>The IWC Cyber Security Strategy was approved on 4<sup>th</sup> January 2024. The Cyber Security Strategy Action Plan has been created, it includes the 39 actions from the LGA report and progress on actions will be monitored by a corporate board. The Cyber Security Strategy Programme Board will be created – first meeting will be in March 2024.</li> </ul>	

<b>STRATEGIC RISK 16</b>		
<b>Ability to manage the impact of the cost-of-living crisis (CoLC) on the council's activities and sustain service delivery.</b>		
Assigned to: Chief Executive		
<b>Inherent score</b>	<b>Target score</b>	<b>Current Score</b>
<b>12 HIGH</b>	<b>9 MEDIUM</b>	<b>12 HIGH</b>
<b>Previous scores</b>		
<b>Dec 23</b>	<b>Sep 23</b>	<b>Jun 23</b>
<b>12 HIGH</b>	<b>12 HIGH</b>	<b>12 HIGH</b>
<b>Mitigation in Place / Planned</b>	<b>Update on Mitigation Activity/ Risk Status in the period</b>	<b>Current Pressure Points this period</b>
<p><b>Additional support and training in the contact centre and help centres to support the increased number of contacts to the council requesting financial support.</b></p> <p><b>Review Date 31/04/24</b></p>	<ul style="list-style-type: none"> <li>The contact centre is capturing the number of calls received from residents seeking guidance on the impact of cost-of-living crisis.</li> </ul>	
<p><b>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.</b></p> <p><b>Impact on some council owned property occupiers is mitigated through the government funding for energy which is being monitored.</b></p> <p><b>Review Date 31/04/24</b></p>	<ul style="list-style-type: none"> <li>The alternative energy rebate schemes open until the end of May continue to provide financial support to residents.</li> </ul>	
<p><b>Adult Social Care, care market sustainability/ Care budget pressure:</b></p> <p><b>There has been extensive work to develop a 2023/4 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).</b></p> <p><b>Review Date 31/03/24</b></p>	<ul style="list-style-type: none"> <li>Pressure continues to be identified in areas of joint funding and complex needs. We continue to seek to engage with the ICB in relation to this area.</li> <li>Link commissioners are in place for all local care providers to ensure that we have high quality regular engagement capable of identifying any market changes that could impact on local people as early as possible.</li> </ul>	<ul style="list-style-type: none"> <li>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 adult social care budgets.</li> </ul>

<p><b>An increase in child poverty will likely impact the demand on and need for a range of services from early help to child protection.</b></p> <p><b>Review Date 31/03/24</b></p>	<ul style="list-style-type: none"> <li>• Recruitment of social workers remains a priority and is actively undertaken daily.</li> <li>• Childrens services intend to recruit to the family help model which will add some capacity across the service.</li> </ul>	<ul style="list-style-type: none"> <li>• If more children require help or protection, this will increase the pressure across all areas of Children's Services continue to experience high levels of demand post pandemic</li> </ul>
<p><b>Additional support and training in the contact centre and help centres to support the increased number of contacts to the council requesting financial support.</b></p> <p><b>Ongoing Review</b></p>		

## STRATEGIC 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.

Assigned to: Director of Neighbourhoods

Inherent Score	Target Score	Current Score
16 VERY HIGH	12 HIGH	12 HIGH
Dec 23	Sep 23	Jun 23
12 HIGH	12 HIGH	13 HIGH
Mitigation in Place / Planned	Update on Mitigation Activity/ Risk Status in the period	Current Pressure Points this period
<p><b>Partnership with the Environment Agency (EA) has identified four priority areas (Yaverland. Bembridge. Shanklin. Ventnor) to refurbish existing coastal defences to reduce growing impacts of coastal erosion, flooding, and land sliding on communities.</b></p> <p><b>These locations are eligible for national government funding (FCERM Grant in Aid).</b></p> <p><b>Review Date 31/04/24</b></p>	<ul style="list-style-type: none"> <li>• Ventnor Coastal Protection Scheme: Programme reviews underway to consider impacts on original proposals of the more urgent works for four frontages identified by recent surveys and the current IWC emergency works (see Current Pressure Points). Original planned scheme completion 2029.</li> <li>• Yaverland Seawall Refurbishment Scheme: Completion planned for 2026.</li> <li>• Shanklin Seawall Refurbishment Scheme: Completion planned for 2026.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• EA main schemes are not scheduled to start until 2026 at the earliest. Potential for assets to deteriorate/fail during this period.</li> <li>• 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.</li> <li>• The highways roadworks availability matrix conflicts with the environmental constraints for ground investigation works.</li> </ul>
<p><b>Memorandum of understanding (MOU) with Coastal Partners who are conducting twice annual T28 condition surveys on all IWC maintained coastal assets.</b></p> <p><b>Complete</b></p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Governance structure has been reviewed to provide control and oversight for the programme.</li> </ul>	
<p><b>Oversight for coastal management is led by of the Strategic Manager of Environment and Waste. This will provide a coordinated, strategic, and operational approach to integrated coastal zone management.</b></p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Marine license in place.</li> </ul>	





**NEW FEB 24 - STRATEGIC RISK 18**

**Description: Coastal erosion, the impact on the Island’s infrastructure, roads and utilities and the financial implications that could bring.**

**Assigned to: Strategic Director – Communities**

Inherent Score	Target Score	Current Score (Proposed)
16	12	13 HIGH
Previous Period	Previous Period	Previous Period
N/A	N/A	N/A
Mitigation	Update on Activity/Status	Pressure Points
<p>Coastal erosion and flood defence schemes in place to protect the coastline by preventing the natural processes in areas defined as hold the line or managed realignment in the Shoreline Management Plan 2010.</p> <p><b>Review: 30/09/24</b></p>	<ul style="list-style-type: none"> <li>Coastal communities suffering loss of infrastructure such a breach on A3500.</li> <li>Significant storm damage to several defence assets following winter storms have put some defenced communities at greater risk.</li> </ul>	
<p>New investigation into the geomorphology of the undercliff at Bonchurch and other breach points is being commissioned.</p> <p><b>Review: 30/09/24</b></p>	<ul style="list-style-type: none"> <li>Bonchurch landslide investigation report has identified the trigger points on the 10 Dec 2024 landslide and the next steps required for monitoring and risk management the area.</li> </ul>	
<p>New developments encouraged to incorporate property flood resilience and sustainable drainage systems (SuDS)to be adaptable to the effects of future climate change.</p> <p><b>Review: 30/09/24</b></p>	<ul style="list-style-type: none"> <li>Low lying coastal areas which are frequently flooded or those which show evidence of significant erosion in policy defend areas may be more likely to deter investment and less likely to attract new businesses into the area.</li> <li>Developing a memorandum of understanding with Southern Water to support the rapid delivery of SuDS schemes to alleviate surface water overwhelming combined sewars. Project will rapidly reduce storm overflows to sea.</li> </ul>	
<p>Encouraging soft engineering such as beach replenishment and salt marsh restoration can provide a natural defence against coastal flooding and erosion. Increasing the maintenance of defence assets and to restore foreshore depths and slow the decline of hard infrastructure.</p>	<ul style="list-style-type: none"> <li>Managing through the capital Repair schemes and the Partnership major FCERM projects with the Environment Agency</li> </ul>	

<p><b>Review: 30/09/24</b></p>		
<p>Community flood action groups with resilience plans enabling communities to be more prepared, efficient at responding and be able to recover more quickly from disruption.</p> <p><b>Review: 30/09/24</b></p>	<ul style="list-style-type: none"> <li>Flood actions groups will be re-launched and supported following section 19 flood reports.</li> </ul>	
<p>Medium- and long-term strategy development for sustainable transport where coastal erosion and flooding is impacting the viability of highways.</p> <p><b>Review: 30/09/24</b></p>	<ul style="list-style-type: none"> <li>Considerations for Military Road and Leeson Road are underway to protect the viability of the routes and associated economic losses if they cannot be maintained.</li> </ul>	
<p>Climate Assessment Tool and Decision Wheel is used in all cabinet decisions to ensure the impact is known and acknowledged.</p> <p><b>COMPLETE</b></p>	<ul style="list-style-type: none"> <li></li> </ul>	
<p>National Digital Twin Programme in partnership with the Department for Business and Trade (DBT)</p> <p>Improve the management and optimisation of assets and eco-systems throughout their lifecycles.</p> <p>Improve our ability to plan for, and respond effectively to, events, as well analyse, learn from and adapt to changing circumstances.</p> <p><b>Review: 30/06/24</b></p>	<ul style="list-style-type: none"> <li>One of the current use cases on the Isle of Wight demonstrator programme relates to asset resilience, emergency planning and response, including the ability to better respond to the need of vulnerable individuals.</li> <li>Digital twin-related technologies and processes offer the potential to better predict and manage these risks, by enabling stakeholders to simulate various scenarios and test preventative and reactive strategies. In turn, this provides the opportunity to increase the resilience of key infrastructure and services and improve emergency response, as well as contributing to the broader policy for climate resilience and emergency preparedness.</li> </ul>	<ul style="list-style-type: none"> <li>The data will need to come from several static and dynamic sources and include historic data trend analysis and modelling of future demand as well as consideration of the impact of external factors such as changing weather patterns. By linking this information with other data sources, the use case can begin to look at how digital twins can enhance demand prediction, and increase situational awareness, and response.</li> </ul>

# Risk Prioritisation Matrix

<b>Likelihood/Probability</b>	<b>4</b> V. Likely	<b>7</b> Medium	<b>11</b> Medium	<b>14</b> High	<b>16</b> <u>VERY HIGH</u>
	<b>3</b> Likely	<b>4</b> Low	<b>8</b> Medium	<b>12</b> High	<b>15</b> <u>VERY HIGH</u>
	<b>2</b> Unlikely	<b>2</b> Low	<b>5</b> Low	<b>9</b> Medium	<b>13</b> High
	<b>1</b> Remote	<b>1</b> Low	<b>3</b> Low	<b>6</b> Low	<b>10</b> Medium
	<b>Scale</b>	<b>1</b> Low	<b>2</b> Medium	<b>3</b> High	<b>4</b> Major
<b>Impact/Severity</b>					

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 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 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

## Committee Report

### ISLE OF WIGHT COUNCIL

Committee	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
Date	<b>18 MARCH 2024</b>
Title	<b>AUDIT AND GOVERNANCE COMMITTEE ANNUAL REPORT 2023-24</b>
Report of	<b>CHAIRMAN OF THE AUDIT AND GOVERNANCE COMMITTEE</b>

---

#### **Executive Summary**

1. This report is the annual report to the Audit and Governance Committee, in line with the Chartered Institute of Public Finance & Accountancy (CIPFA) position statement for audit committees issued in 2022.

#### **Recommendation**

2. The Audit and Government Committee notes the chair's report for 2023/24.

#### **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. 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**

5. 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.
6. 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.
  7. Full Council at its meeting of May 2023 resolved that the committee's name be changed to 'Audit and Governance'. This followed a resolution of the committee of 20 March 2023 to recommend this change "to encompass the scope of the committee's work more accurately".
  8. 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."
  9. 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. One member is a Cabinet member who declares any potential conflicts of interest at the earliest opportunity and takes no part in proceedings where necessary.
  10. 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 and Governance Committee and the chair of the Corporate Scrutiny Committee meet regularly to discuss matters of particular interest and concern.
  11. The chair of the committee is regularly briefed on risk management reports by appropriate council officers.
  12. The committee's membership is not large and is set at seven members. The political balance is in line with the requirements for overall proportionality across committees.

### **Core Functions**

13. 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
14. 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.
15. 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.
16. 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.
  17. 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.
  18. As part of the report preparation process, the chair has the opportunity to comment on a number of draft reports and raise questions. Examples include the reports on the strategic risk register and on treasury management.
  19. Where issues of concern to committee members are outside of the scope of the committee's terms of reference, scrutiny committees have been requested they give them consideration.

### **Audit Committee Membership**

20. 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.
21. 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.
22. All committee members are mindful of the need for unbiased attitudes and have engaged in their responsibilities in an apolitical manner.
23. The chair has been very mindful of the specific requirements and has sought to ensure that they have been met as the committee has conducted its business.
24. It is desirable for the committee to engage directly and separately with its external auditors. The chair has met with the external auditors ahead of meetings of the committee.

### **Engagement and Outputs**

25. 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.
26. The committee remit is clearly defined in its terms of reference, contained in the council's constitution.

27. 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 2023/24.
28. Regular meetings are held between the chair and the council's Chief Internal Auditor. The chair also raises matters with the chief executive when appropriate.
29. Senior officers, including the Chief Executive, Director of Finance, Monitoring Officer and other directors regularly attend committee meetings. The Chief Internal Auditor always attends 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.
30. The committee has an annual work programme and formally reports on its activity annually.

## **Impact**

31. 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.
32. 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.
33. 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.
34. 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.
35. In the previous annual report, the desirability of the chair observing consideration of risk management by senior officers from time to time was identified. The chair observed the discussions of 21 November 2023 by the Corporate Management Team and reported as follows to the committee meeting of 11 December 2023:  
  
"The chairman confirmed that he had attended a meeting of the Corporate Management Team to observe the discussion around risk and was satisfied that senior management takes risk seriously and addresses it appropriately in their deliberations."
36. The chair and Chief Executive have discussed scheduling a repeat observation to take place in due course.

## **Future Activities**

37. The committee will continue to carry out its work according to the terms of reference set out in the constitution.
38. The council has a Future Governance Working Group developing a framework for a committee system that, subject to agreement by the full council, would replace the Cabinet system. Audit and Governance Committee will hold a special meeting ahead of the Full Council meeting at which a formal resolution to change governance arrangements will be considered.
39. In the previous annual report, the desirability of co-opting an independent member with appropriate knowledge and experience had been identified. This has not been taken forward and should be a priority for consideration in the coming year.
40. The chair has discussed observing an audit from 'start to finish' with the chief internal auditor. It is hoped that this will take place in the first quarter of 2024/25. The objective is for the chair to get a deeper understanding of how the processes of internal audit work in practice.

## **Corporate Priorities and Strategic Context**

41. The Audit and Governance 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*

42. There are no direct impacts within this report that will affect this corporate priority.

### *Economic Recovery and Reducing Poverty*

43. There are no direct impacts within this report that will affect this corporate priority.

### *Impact on Young People and Future Generations*

44. There are no direct impacts within this report that will affect this corporate priority.

### *Corporate Aims*

45. As above.



## **Financial / Budget Implications**

46. 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**

47. 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**

48. 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 reassignment, 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**

49. 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**

50. CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022 <https://www.cipfa.org/-/media/Files/Services/Support-for-audit-committees/CIPFA-AuditCommittee-Position-Statement-2022.pdf>

Contact Point: Councillor Andrew Garratt, chair of the Audit and Governance Committee

e-mail [andrew.garratt@iow.gov.uk](mailto:andrew.garratt@iow.gov.uk)

CLLR ANDREW GARRATT  
Chair of the Audit and Governance Committee

This page is intentionally left blank



Purpose: For Decision

## Full Council Report

**ISLE OF WIGHT COUNCIL**

Meeting	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
Date	<b>18 MARCH 2024</b>
Title	<b>FUTURE GOVERNANCE – PROGRESS UPDATE</b>
Report of	<b>FUTURE GOVERNANCE WORKING GROUP/AUDIT AND GOVERNANCE COMMITTEE</b>

---

### Executive Summary

1. This report provides the Audit and Governance committee and Full Council with an update on progress towards the proposal to implement new governance arrangements for the Isle of Wight Council. This follows the resolution by Full Council at its meeting of 17 January 2024 for the Future Governance Working Group to work with the monitoring officer and senior officers on the constitutional changes required to introduce a committee system of decision making, with a progress report provided to Full Council in March 2024. Audit and Governance committee are first invited to consider the report, noting progress to date and to make recommendation(s) to Full Council as considered necessary. Full Council are then invited to consider the progress report.
2. Once the preparatory work has been completed, a report will be brought before an extraordinary Full Council meeting (proposed to be 1 May 2024) to allow for members to give due consideration to the options open to the council before determining its preferred route. If a change is determined, the statutory requirement for Full Council to pass a section 9KC resolution (as set out in the Local Government Act 2000), will need to be made. After the resolution has been passed, there will then be the need to publish the new scheme, making copies of the new governance model and associated implementation details available to the public for inspection. After that, it will be possible for the new arrangements to take effect from Annual Council in May 2024 or at an appropriate future date agreed by Full Council.

### Recommendation

- |   |
|---|
| <ol style="list-style-type: none"><li>3. To note the progress made to date, comment and make contribution to the considerations to be taken account of in the development of the proposals for a change in governance arrangements.</li></ol> |
|---|

## Background

4. Full Council at its annual meeting on [17 May 2023](#) considered a motion proposed by Cllr Brodie to consider the introduction of a new committee system of governance for the Isle of Wight Council. Given that there was potential for there to be financial implications arising from such a move, the Chairman advised that under Part 4A of the council's constitution it would be referred to Cabinet.
5. Cabinet at its meeting of [8 June 2023](#) then further considered the motion and the most appropriate route by which the work could be progressed. Cabinet resolved that it would recommend to Full Council that the motion be referred to the Audit and Governance Committee as it was considered to fall within their terms of reference.
6. Full Council at its meeting of [19 July 2023](#) resolved unanimously that:

“Full Council agrees to establish a politically proportionate 'Future Governance Working Group' to make recommendations to Full Council January 2024 via the Audit and Governance Committee regarding moving to a committee system of governance (including the future Committee structure, decision-making powers, etc.). The intention being to recommend for approval a formal resolution to that meeting to bring about such a change in governance with effect on and from the Annual Council 2024.

The Future Governance Working Group shall consist of ten councillors, namely any 3 councillors from the alliance group, any 4 councillors from the conservative group, any 1 councillor from the empowering islanders' group, any 1 councillor from the liberal democrat group, and any 1 non-aligned councillor, plus staff support.

Its terms of reference are to develop a new Committee system of governance for the Isle of Wight Council and to make recommendations for its implementation to Full Council.

In so doing, the Future Governance Working Group shall, amongst other things, consider how other local authorities have made a transition back to the Committee system of governance model and what lessons can be learnt from that experience, and shall consider examples of best practice, to inform those recommendations.”

7. After that meeting, the Future Governance Working Group, chaired by Cllr Brodie was established and became operational to undertake the necessary work required. This group met fortnightly during September and October 2023. Four subgroups were established to include consideration of:
  - Changes to a committee system elsewhere
  - Views of our senior officers/colleagues and elsewhere
  - Possible structures of a committee system
  - Cabinet based alternatives to committees.
8. At the conclusion of the Future Governance Working Group deliberations in November 2023, the Audit and Governance Committee at its meeting of [11](#)

[December 2023](#) received a report from Cllr Brodie as chair of the working group, in which it was determined that the working group (with nine votes in favour and one abstention) would recommend to Full Council that it moves towards the introduction of a committee system with effect from May 2024. The committee noted this recommendation.

9. Full Council at its meeting of [17 January 2024](#) after debate resolved to note the recommendation of the future governance working group made to the Audit and Governance committee and that the working group would now work with the monitoring officer and senior officers on constitutional changes required with a progress report being provided to Full Council in March 2024.
10. Section 9B of the Local Government Act 2000 sets out that a local authority in England must operate one of three forms of governance arrangements.
  - (a) Executive – either in the form of an executive leader and cabinet or a directly elected mayor and appointed cabinet
  - (b) A committee system, or
  - (c) Prescribed arrangements as determined by the Secretary of State.
11. Section 9L(4) of the Local Government Act 2000 also limits the relevant time when a governance change can take effect to that of a local authority’s annual meeting. This means that if a change in governance arrangements is agreed, implementation would need to take immediate effect from the Annual Council meeting in May 2024 or the next Annual Council meeting in May 2025.
12. This report therefore provides a further update on the work undertaken since Full Council in January 2024 and the procedural requirements to deliver a change in governance arrangements for the intended change to take effect from Annual Council in May 2024.
13. An officer project group has been established with the chief executive taking the lead as project sponsor. The group, which meets weekly, is compiled of the director of corporate services; corporate governance manager; strategic manager for financial services; communications and engagement officer; deputy monitoring officer and supported by a senior programme manager. In addition to this operational project group, external specialist legal governance advisors have been commissioned through one of the council’s approved procurement frameworks to assist with the necessary constitutional re-drafting requirements if the changes in governance arrangements are to be adopted.
14. The Future Governance Working Group has been established as the member review board, meeting fortnightly, and are maintaining oversight of the work being undertaken by the officer project group, as well as to afford direction to the developments underway.
15. A high-level project plan, including the timeline for when key activity is to be undertaken, together with the key decision points (shown at Appendix 1) has been developed to assist in the delivery of the workstream activity necessary to deliver a change in governance arrangements from Annual Council in May 2024. The key procedural decision points for Full Council to instigate any such change within that timescale are:

- (a) An extra-ordinary meeting of audit and governance committee in April 2024 to consider a detailed options report that will allow for members to make an informed recommendation as to whether to proceed with a change in governance arrangements. Audit and governance committee will be invited to make recommendations to Full Council which will then make the formal decision on the preferred option. This report will set out the benefits and disbenefits of each of the options open to the Council and must be taken account of in making a final decision.
  - (b) An extra-ordinary meeting of Full Council (proposed to be 1 May 2024) at which full consideration will be given to the options, the deliberations of the audit and governance committee and their recommendations to Full Council. If there is agreement to proceed, the outcome, in accordance with section 9KC of the Local Government Act 2000, will be the requirement to pass a resolution to introduce a change in governance arrangements and the date upon which it will take effect.
  - (c) To comply with Section 4 of the Local Government Act 2000 it will be necessary, as soon as practicable after the passing of the section 9KC resolution, to make available for public inspection a document that sets out the provisions of the new arrangements that are to have effect and publish in one or more newspapers circulating in the area a notice of the changes that are to take effect.
  - (d) The Annual Council meeting, at which, if a 2024 implementation is agreed, will be recommended to approve the new constitution upon which those arrangements will be operated, to agree a new scheme of member allowances, financial regulations, standing orders and appoint a leader and chairs to each of the service committees.
16. Given that there is a stated preference at this point to move towards a committee system of governance with effect from May 2024, an outline committee structure, as proposed by the future governance working group and noted by audit and governance committee at its meeting of 11 December 2024 is the basis upon which the required structural governance changes are being undertaken.
17. Given the short timescale available to the council to deliver the required change by May 2024, a pragmatic approach is by necessity, being taken. Due to the time constraints, the Future Governance Working Group, supported by officers and specialist external legal advisers, are providing the overall direction for the initial introduction of the committee system model.
18. To this end, the working model being proposed for adoption, is that any aspect of the current constitutional arrangements that are not directly affected by the proposed change will be transported across to the new system unchanged. This is to allow appropriate focus to be given to the essential aspects of operating a new governance model. Refinement and more comprehensive arrangements can then be undertaken post implementation and will allow for adjustments to be made once operational experience and learning has taken place. This reflects the fact that Constitution reviews can take over a year to complete. This should therefore be seen as the start of such a process, and it must be acknowledged that working to



this timeframe means there will be gaps and/or unresolved issues. There are therefore risks associated with this approach in that there will be limited opportunity for council members to take a comprehensive view on any constitutional changes being made at this point. However, this approach allows the council to implement the new model at speed, should that be the will of the council and it is intended to specifically provide for review of the existing and new (if adopted) arrangements over the next 12 months, thus providing ample opportunity to both fine tune the new arrangements, and revisit aspects of concern not addressed in this process.

19. However, as long as everyone accepts that the delivery of a new governance model for the council is an iterative process and as such proposals may change or be refined based on feedback from elected members and public engagement activities once any new arrangements have “gone live”, this is achievable. Officers will use their best endeavours to deliver the best solution within the timetable that they can, with those advising them within the timescale and in accordance with the working model adopted.
20. Thus far, the working model of a committee system and as endorsed by Full Council at its meeting of 17 January 2024, (shown at appendix 2) is being based upon the introduction of five, politically proportionate committees and for which terms of reference are being prepared:
  - a) An overarching policy, finance, and resources committee, consisting of nine elected members, meeting nine times per year, and which will have responsibility for corporate policy and budget. It will be chaired by the leader of the council with the deputy leader of the council as the vice chair and remaining membership to include the four service committee chairs, and three other members subject to political proportionality. A non-voting place to be made available to the chair of audit and governance committee.

And four service committees, each consisting of nine elected members, meeting four times a year, with committee chairs and vice chair appointments being made by Full Council:

- b) Children’s services committee
  - c) Adult social care, public health, and housing committee
  - d) Economy, transport, and infrastructure committee
  - e) Environment and community protection committee
21. The future governance working group have considered the most appropriate model to assume for the scrutiny of council decisions. In the executive form of governance (leader and cabinet), scrutiny is primarily focussed on scrutinising executive decisions as an important counterbalance to the powers the governance model gives to the executive. A move towards a committee system will allow politically balanced participation and decision making of councillors from all political or non-aligned groups in committees of the council, thus allowing for a full spectrum of views to be heard when decisions are taken. In such a model, scrutiny will not be needed in the same way. It is therefore proposed that there will be no separate overview and scrutiny committees. This means that any residual statutory scrutiny function will be exercised by the committee with responsibility for that function. This will also apply to statutory and external scrutiny requirements. This can be changed

in the future if the experience suggests that this is not the most advantageous way in which to approach scrutiny.

22. Other current working model preparations are being undertaken on the basis that:
- (a) Current provisions for urgent decisions and delegations will remain unchanged other than those necessary to fit with a committee model of governance.
  - (b) That the new committee structure will provide for meetings to take place in the evening as is currently in place
  - (c) There will be a total of 100 committee places, a reduction of five based on the current 95 places and up to 10 cabinet places.
  - (d) There be a reduction of Full Council meetings from six to five times a year to include Annual Council and budget meeting.
23. As set out above, once the preparatory work has been concluded, to make a lawful decision, Full Council must consider the options for its future governance arrangements, in making its final decision to proceed with a change, taking account of any recommendations from the audit and governance committee who will have received and examined the options report prior to Full Council.

## **Corporate Priorities and Strategic Context**

24. At the heart of the council's corporate plan 2021 – 2025 are the core values of being community focussed; working together; being effective and efficient and being fair and transparent.
25. The council has been subject to a period of a no overall control administration and is made up of seven representative parties or groups. This is increasingly challenging for council decision making processes and has led to many councillors feeling excluded and unable to fully represent the views of their electorates.
26. By proposing a change in the council's governance arrangements from the current leader and cabinet model to that of a committee system, it will allow all councillors to engage with the council and in decision-making in a different and more participatory way. However, this will be balanced against the advantages that the executive form of governance brings which focuses accountability of decisions on a small group of identified councillors. Both models have their strengths and weaknesses.

## **Consultation**

27. There is no formal statutory duty for the council to undertake public consultation in proposing a change in governance arrangements although it must be mindful of its duties under Section 3 of the Local Government Act 1999 which requires local authorities to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness. In fulfilling this duty, the council is obliged to consult with key stakeholders. However, there is statutory requirement for the council to consult with its affected employees, where any changes proposed will change their terms and conditions or contractual requirements of employment. This will be undertaken in

accordance with the council's employment policy and procedures and in conjunction with recognised trade unions.

28. As part of the investigative work by the future governance working group, research and engagement with other local authorities, their officers, and elected members and the Local Government Association together with a press release to the Island public seeking views was undertaken. That work is being built upon as part of the preparations for Full Council to fully debate and take a final decision.
29. Following Full Council's endorsement to proceed with the necessary preparatory work to progress towards the introduction of a committee system at its meeting of 17 January 2024, a communications plan has been put in place to build engagement and understanding of the potential changes a move to a committee system will bring (shown as appendix 3). An initial press release has been made to announce the proposed changes together with an email address having been set up to provide a single feedback point for resident views, and briefing events are to be made available for town, parish, and community councils as well as all members.
30. At the point of publication of this report, four responses have been received into the dedicated email address. Three indicating support for the move towards a committee system although one expressing caution about making change at rapid pace. One being against the proposal and concerned that this will incur additional costs for the council at a time of continued financial challenges.
31. Public engagement events will take place at appropriate points in time as proposals take shape and to which all town, parish and community councils will be invited.

## **Financial / Budget Implications**

32. Operating under a committee system is a very different model of decision making as compared with leader and cabinet arrangements. Decisions are taken through cross party committees, and this will require the organisation to review how it can adequately engage with and support members in its operation. To that end, the resourcing implications are under careful consideration, taking account of the changes that will both relinquish officer time and potentially increase it under a new model. Members will need to be satisfied that while seeking to achieve a cost neutral position for a change in governance arrangements, that it has been realistic in the number of scheduled meetings it determines to allow for all the council's business to be conducted and which can be adequately resourced by relevant officer support. As the detail of the format of the committee structure develops, it will then be possible to make a recommendation of any financial implications associated with democratic and wider organisational professional advisory support.
33. Operating under a committee system will require councillors to engage in council business in a different way. This will mean that the Independent Remuneration Panel will need to review the new arrangements and make proposals for changes to members allowances. The role and responsibilities for the chair of a committee is significantly different to that of a cabinet member and as such these considerations will need to be taken account of. There is an assumption that there will be no increase to the current budget envelope that is assigned to the remuneration of elected councillors for the Isle of Wight Council. The Local Authorities (Members' Allowances) (England) Regulations 2003 requires each local authority by 31<sup>st</sup> March

each year to adopt the scheme of allowances for the following year. This means that it will be necessary for Full Council to initially agree a member's allowance scheme for the current leader and cabinet model at its March 2024 meeting. If a formal resolution is passed to change governance model, it will then be necessary to adopt an entirely new members allowance scheme. To ensure that a new scheme can be adopted to reflect any change in governance arrangements, discussions are currently underway with the chair of the Independent Remuneration Panel. The formal panel will be convened as soon as possible to agree initially an interim scheme following which a full scheme will be developed at the earliest opportunity.

34. It is important to emphasise that the operation of new ways of working need to remain cost effective and reflect modern best practice. It is therefore proposed to maximise the use of information technology as far as possible, and members will be asked to consent to receiving meeting summons and papers electronically. However, statutory requirements for availability of printed copies for members of the public, and councillors who do not consent to receiving electronic documents and in areas where there are specific needs which would impact of equality of access considerations will be honoured.
35. Given the extremely challenging timescale in which to plan and mobilise all the necessary statutory and practical operational aspects that a change in governance arrangements requires, additional capacity has been sourced utilising an approved procurement framework to assist with the drafting of the essential constitutional elements that a committee system will bring. This is being funded from within existing budgets.

## Legal Implications

36. The Local Government Act 2000 sets out the permitted forms of governance for local authorities which are:
- Executive arrangements – which can take the form of either a directly elected mayor and cabinet appointed by the mayor, or an executive leader appointed by Full Council and cabinet appointed by the leader.
  - A committee system, or
  - Prescribed arrangements as determined by the Secretary of State
37. The council currently operates an executive leader and cabinet model of governance. The legislative provisions for changing its governance arrangements are set out in Section 4 of the Local Government Act 2000. Section 9KC of the Act stipulates that a resolution of a local authority is required for the authority to make a change in governance arrangements. The act also provides that the “relevant change time” for the purposes of section is a time during
- (a) the first annual meeting of the local authority to be held after the resolution to make the change in governance arrangements is passed, or
  - (b) a later annual meeting of the local authority specified in that resolution.
38. Therefore, when full council make their decision as to whether to change the form of governance full council will also be asked to agree and confirm the date on which it should take effect, that being a date of a future Annual Council meeting.

39. After a resolution has been made, as soon as practicable after, the local authority is required to:
- a) secure copies of a document setting out the provisions of the arrangements that are to have effect following the resolution are available at its principal office for inspection by members of the public and,
  - b) publish in one or more newspapers circulating in its area a notice which:
    - i) states that the authority has resolved to make a change in its governance arrangements
    - ii) states the date on which the change is to have effect
    - iii) describes the main features of the change
    - iv) states that copies of a document setting out the provisions of the arrangements that are to have effect following the resolution are available at the authority's principal office for inspection by members of the public, and
    - v) specifies the address of the authority's principal office.
40. The local authority may not pass another resolution that makes a change in governance arrangements before the end of the period of five years beginning with the date of the resolution passed unless a referendum is held.
41. An employment contract between an employer and an employee is a legally binding agreement. Under the Information and Consultation of Employees (ICE) regulations the council has formal arrangements with its recognised trade unions for the purposes of keeping staff informed and consulted upon important matters and decisions that may affect or change their terms of employment. It is unknown at this stage whether there will be any substantial changes required but it will necessitate different methods of working and potentially more out of normal working hours to be accommodated and these matters will need to be carefully worked through and impacts fully understood on the operation of the council's business.

## **Equality and Diversity**

42. 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.
43. Under the Equality Act 2010 we are required to have due regard to our equality duties when making decisions, reviewing services, undertaking projects, developing, and reviewing policies. A draft equality impact assessment has been prepared and will be updated as feedback from councillors, members of the public and staff is received and the proposals for a new form of governance take shape. This will then form the basis of the final report to Full Council at its extraordinary meeting in May 2024 that will consider whether to confirm a change to the council's governance arrangements.

## Options

44. There is insufficient detail available to councillors at this point with regards to the proposed arrangements for the introduction of new governance arrangements, so it is not yet possible to pass any formal resolution for change. This report seeks to keep members of the council informed on the progress being made and the plans in place to enable a lawful decision at the appropriate time. Options open to members are:

45. Option 1:

To note the progress made to date, comment and make contribution to the considerations to be taken account of in the development of the proposals for a change in governance arrangements.

46. Option 2:

To note the progress made but determine no further work be undertaken and to leave existing governance arrangements in place.

This would not be in accordance with the wishes of Full Council at its meeting of 17 January 2024 to recommend for approval a formal resolution to bring about a change in governance arrangements with effect from Annual Council in May 2024.

## Risk Management

47. The main risk associated with the delivery of a change in governance arrangements for the council by May 2024 is that of organisational capacity due to the challenging timescale in which to adequately prepare all the components necessary to make a lawful decision and to avoid potential governance failures that may arise as a consequence of insufficient time to duly consider all elements of operation that will bring about the changes in governance being sought and allowing time to embed such change into our organisational model. As a matter of high importance to members, relevant officer resources have been drawn in to assist with the planning and preparation and a project plan and indicative timeline established to identify the key elements of activity required. In addition, the council has sought to bring in additional external specialist capacity to support the delivery of required constitutional changes and governance advice necessary to conclude the work to be undertaken.

48. However there remains a risk with working at pace to deliver a change. This is addressed in paragraphs 18 and 19 of this report. Members should note the consequences of moving with pace, and content/limitations of what has been achieved to deliver that as well as the length of the overall programme and the ongoing review of the Constitution both to reflect upon the operation of the new arrangements and fine tune them as required, but also generally to address matters that members (and officers) have identified need change but will not be addressed by this process .

49. The council must also be mindful that there is the Police and Crime Commissioner



election taking place on Thursday 2 May 2024 which will also be a draw upon the commitments of some key officers required to support the delivery of this piece of work. Additional pressure will be evident should it be the case that a general election is also called at the same time which will see the operation of two parliamentary constituencies for the Isle of Wight and for the first time. The Council cannot afford reputational damage if it were not to discharge its duties in the effective management and delivery of elections and any failure is likely to warrant Electoral Commission intervention and potential legal action. This work has been factored into the project risk register (shown at appendix 4).

50. Evidence from other local authorities that have instigated such a governance model change have afforded a minimum period of twelve months from the point of passing a Section 9KC resolution to implementation to allow for all the considerations and preparations to take place efficiently and effectively. This allows for all members to be fully engaged in the preparation of the constitutional changes necessary for a change in governance arrangements; refresh elements that require improvement; member and officer familiarisation with new operating procedures through shadow committees. This approach, however, does not guarantee that there will be no imperfections and constitutional amendments and improvement remain an on-going aspect of council business. Full Council has indicated that to resolve what it considers to be a failure in its current governance arrangements that an urgent move to a change in approach to decision making from May 2024 will improve that situation. To seek to achieve that ambition, it will be necessary to limit the number of constitutional changes it makes to those which are essential to the introduction of a committee system and to proceed with limited member engagement at the initial stage. Members will therefore need to accept that much of the current constitutional provisions will remain unchanged and that there will be no opportunity for full engagement in the design of the changes necessary. If a section 9KC resolution is passed and a change date of May 2024 agreed, there will need to be the instigation of a formal review of constitutional provisions which will take account of experience in the operation of the new system as well as to address the “snagging” list of amendments that are already set to be reviewed.
51. A change to a committee system will introduce a system of decision making that will be new to many councillors and officers. There will be no opportunity to operate shadow committees and as such there is a likelihood that sufficient knowledge and experience cannot be gained by the point of implementation and there is potential for mistakes to be made. Training and information giving sessions will be undertaken as far as is reasonably possible prior to implementation for staff and officers and that will continue post implementation. This will be a learning experience in which there will need to be tolerance of potential unintended mistakes to be made. The committee calendar for the year will also need to be reviewed, with a new set of dates to be determined to accommodate a new committee structure. It is important therefore that there is understanding from everyone involved that current planned diary dates may by necessity be changed.
52. There is the potential for our public to be confused about the changes and what they will mean to them and how the council is to be operated going forward. A communications and engagement plan has been prepared to address this factor and to ensure that the changes are carefully communicated to members of the public, our partner organisations, and other stakeholders and that there is appropriate opportunity for engagement in the process, with the ability to contribute

to its development.

## Evaluation

53. Full Council has determined by way of resolution that it wishes to consider a change to its current governance arrangements by a move towards the introduction of a committee system. This stems from the challenges that have been identified with a no-overall control administration. To address this situation, Full Council currently believes that a move to a committee system will allow for greater collaboration across the different party groups and non-aligned members; afford more credibility in council decision making by better engagement of all elected members and increase transparency in the decision-making process to members of the electorate.
54. If the proposal to make a change to the council's governance arrangements is to be May 2024, then this is extremely challenging given the statutory duties that must be adhered to, and operational preparation undertaken to make an informed and lawful decision. A project plan and indicative timeline is in place to seek to meet that proposed deadline. To deliver against that challenging deadline there is acceptance that the decision is the key element to the process, with operational efficiency taking place post May 2024.
55. At this point, it is not possible to provide members with the full details of the proposed new governance arrangements but an indication of the framework through which progress to date is set out in this paper. Members are therefore recommended to endorse option 1.

## Appendices Attached

56. Appendix 1: High level project plan
57. Appendix 2: Indicative committee system structure
58. Appendix 3: Communications and engagement plan
59. Appendix 4: Project risk register

## Background Papers

60. Annual Council – [17 May 2023](#) consideration of motion from Cllr Brodie
61. Cabinet - [8 June 2023](#) consideration of referred motion from Full Council
62. Full Council - [19 July 2023](#) consideration of Cabinet recommendation
63. Audit and Governance Committee - [11 December 2023](#) Future Governance Working Party Update Report
64. Full Council - [17 January 2024](#) – Future governance arrangements update
65. Contact Point: Claire Shand, Director of Corporate Services, ☎ 821000 e-mail [claire.shand@iow.gov.uk](mailto:claire.shand@iow.gov.uk)

WENDY PERERA  
CHIEF EXECUTIVE

COUNCILLOR BRODIE, CHAIR  
OF FUTURE GOVERNANCE WORKING  
GROUP/COUNCILLOR GARRATT  
CHAIR OF AUDIT AND  
GOVERNANCE COMMITTEE

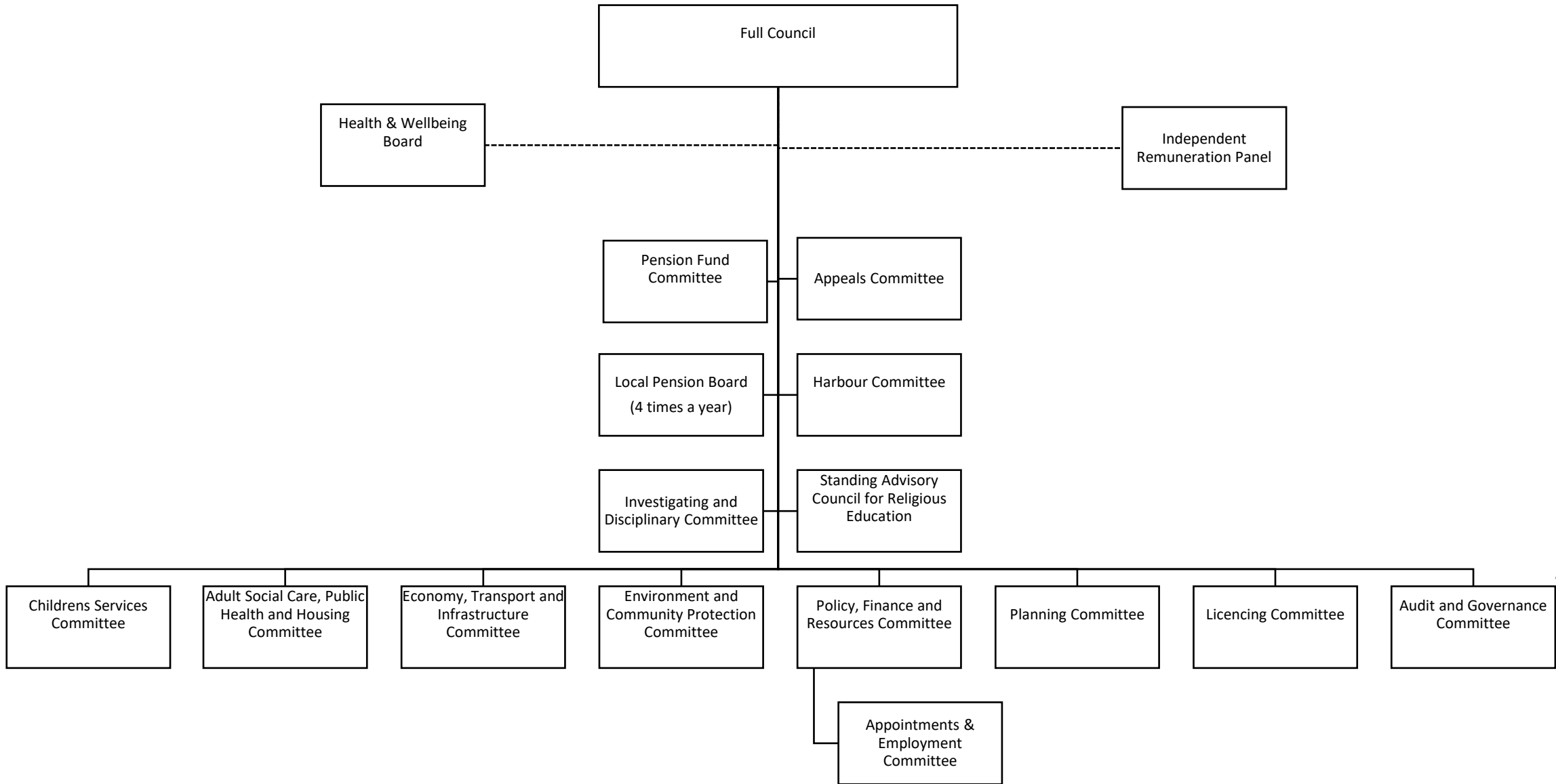
# Future Governance – High level plan

- Full Council/AGM
- ◆ Milestone
- Member Board
- Officer Board

1 February 2024	Feb 24	Mar 24	Apr 24	May 24	Jun to Dec 24
Meetings					
Governance	Project governance High level plan	EIA/DPIA Add to Forward plan	Interim report	Prepare stat publicity requirements Final report and S9KC(2) resolution	Wash-up and review
Constitution	Committee ToR/decision making Election of chairs/procedural rules Officer delegations Urgency provisions Communications protocol	Statutory scrutiny provisions Officer/member protocol Forward plan Petition scheme model Access to information Recording/publishing decisions		New constitution	
Rules/Regulations	Appointment of IRP member	IRP Member Allowance 24/25 scheme			
Public Engagement	Proposal introduction	Progress update Formal publication of arrangements	Progress update	Key messages	
Committee Administration	Current provision review Review of future staffing requirements		Familiarisation with new working model	Website/ModGov changes	
Finance	Comparison cost model Review Financial regulations Review CSOs	Financial evaluation of new model	Updated Financial Regulations		
Officer/Member Familiarisation	CMT update	CMT update	CMT update	Familiarisation with new model CMT update	CMT update

This page is intentionally left blank

# Proposed committee governance arrangements for the Isle of Wight Council



This page is intentionally left blank



## **Isle of Wight Council**

### **Future governance communications and engagement plan**

#### **February – June 2024**

#### **Introduction**

At the July 2023 Full Council a Motion proposed by Cllr Geoff Brodie for the IW Council to consider moving to a Committee system of decision-making at its January 2024 meeting was agreed unanimously.

Consequently, a politically-proportionate working group was, Chaired by Cllr Brodie and its mandate in summary was:

1. Make recommendations to Full Council regarding moving to a Committee system, including structure, decision-making powers, etc.
2. The intention to recommend a Committee system for approval and to bring about change on and from 2024 Annual Council.
3. Consider how other Local Authorities have done this and what lessons were learnt.
4. Consider examples of best practice.

#### **Communications approach**

Our communications approach will be to build engagement and understanding of the potential changes a move to a committee system will bring. To do this we will:

- Put our audience (Isle of Wight residents) first.
- Use localised methods and our available channels to share trusted and authoritative information with residents. This could be anything from print leaflets to digital conversations on social media.
- Share information from with the purpose of supporting residents with advice.
- Use data and insights to create and tweak campaigns.
- When needed (and where possible) target communications to certain sectors of the community.
- Our communications reflect the corporate plan of the Isle of Wight Council.

#### **Objectives**

1. Clear information for residents to build understanding.
2. Creating usable content.
3. Encourage people to engage.
4. Build trust and awareness of the future governance arrangements of the Isle of Wight Council.

#### **Audience**

- Isle of Wight residents.

- Internal for councillor engagement
- Internal for staff engagement

## **Strategy/Plan**

- Initial release week of 05/02/2024 – draft being prepared
- Bespoke email address to be set up to provide single feedback point for resident views – week of 05/02/2024
- Engagement on the more detailed work to be prepared in line with the papers that will be ready for Audit and Governance on 18<sup>th</sup> March and Full Council on 20<sup>th</sup> March – this will provide an opportunity to give more detail on proposals and again use the bespoke email to ask for views. All views to be with council by end of second week in April – release week of 11/03/2024 (linked with publication of Audit and Governance Papers)
- Early April - public engagement event and an event to which Town and Parish Councils can be invited (first week in April) – Comms to organise dates & arrangements.
- Comms prepared to support Full Council date in early May – pre Full Council announcements and post council decision
- Statutory notices as required post decision making
- Councillor engagement – led by feedback from FGWG representatives via groups. Actions and feedback to be agreed at the regular working group meetings. Ongoing throughout Feb – May.
- Workforce engagement – regular updates via normal staff channels, engagement with individual teams as needed. Ongoing throughout Feb - May

The strategy provides for the opportunity to seek resident, councillor and staff views through February – April. All feedback can then be used in the Full Council report to inform debate.

A separate communications plan will be produced to link to implementation should the council make a decision to change governance arrangements.

A separate learning/training plan will be developed for councillors and staff should the council make a decision to change governance arrangements.

## **Channels**

IWC media relationships

- External IWC channels – social media, residents e-newsletter, CX stakeholder list and TPC email list, library network,
- Internal IWC channels

## **Scoring/evaluation**

Reach and results from digital media campaigns  
Anecdotal evidence from social media, events

## Appendix 4: Future Governance Project Risk Register

Risk	Score	Mitigation
Lack of capacity in the organisation to deliver the options report by 1 May 2024	High	<ul style="list-style-type: none"> <li>- Engage external consultants to support the project team to deliver the report</li> <li>- Work with teams to ensure robust plans in place to deliver requirements</li> </ul>
Lack of time and capacity in the organisation to implement an alternative governance system during May	High	<ul style="list-style-type: none"> <li>- Work with teams to ensure robust plans in place to deliver requirements for an alternative governance system</li> <li>- Ensure councillors are aware the implementation will be of a basic (lift and shift) system which will be reviewed and improved during the first 6-12 months post implementation</li> </ul>
Possibility of a general election being called in May/June impacting on capacity to deliver	High	<ul style="list-style-type: none"> <li>- Work with teams to ensure all action plans take into account potential loss of key resource who would need to prioritise their election duties</li> </ul>
Death of the monarch impacting on capacity to deliver and on Full Council decision making timetable	High	<ul style="list-style-type: none"> <li>- Keep risk under review</li> </ul>

This page is intentionally left blank

## Scrutiny Report

### ISLE OF WIGHT COUNCIL

Meeting	<b>CORPORATE SCRUTINY COMMITTEE</b>
Date	<b>9 JANUARY 2024</b>
Title	<b>ACCESS TO INFORMATION – RIGHTS OF COUNCILLORS</b>
Report of	<b>MONITORING OFFICER</b>

---

### Executive Summary

1. The purpose of this report is to explain what legal rights councillors may have in their capacity as councillors to access to information, and if so to what extent and when such information may be requested.
2. In particular, explanation has been requested regarding ‘confidential information’ and ‘exempt information’ held by or on behalf of the Cabinet.

### Recommendation

- |                              |
|------------------------------|
| 3. That the report be noted. |
|------------------------------|

### Background

#### *Legal parameters*

4. Although democratically elected to administer its local government area, a local authority is not a sovereign body i.e. it cannot simply do what it wants.
5. The local authority is a separate legal “person” from its councillors. It is a corporate body created by statute - hence the expression of a local authority being ‘a creature of statute’.
6. The basic public administrative law principle is that no local authority can do anything except that which is provided for by law. In other words, in contrast with central government which can do anything which is not prohibited by law, local authorities are dependent upon the existence of laws before they can have authority to act.

7. Therefore, no local authority can, by itself, increase its own statutory authority (no matter how well-intentioned or otherwise) and must act within the legal constraints set i.e. it must act within its powers ('intra vires') and not beyond its powers ('ultra vires').

### *Functions*

8. The activities entrusted to local authorities by Parliament through legislation are described as its "functions".
9. The word "functions" embraces all the 'duties and powers' of a local authority. A duty is something that must be done. A power is something that may, but does not have to, be done.
10. But not all activities are its functions. This follows from the restrictions in remit placed upon local authorities due to being a creature of statute.
11. It is therefore necessary to first identify a statutory function given to the local authority, and only then to ascertain who is to be responsible for exercising that identified statutory function, and to what extent.
12. Whether the identified statutory function is categorised as a power (as distinct from a duty), or is categorised as a duty (as distinct from a power), there are certain general statutory subsidiary powers (see section 111 of the Local Government Act 1972 [Local Government Act 1972 \(legislation.gov.uk\)](https://www.legislation.gov.uk)).
13. It is crucial not to inflate any such subsidiary power itself into the category of a statutory function. These subsidiary powers are not freestanding functions, and are dependent upon the existence of one or more identified statutory functions.
14. To ascertain whether a particular activity falls within the lawful functions of a local authority, it is therefore first necessary to identify the particular function, and then, to ask whether the activity in question is incidental to it. An activity is not incidental merely because it is convenient or desirable or profitable.
15. But, within certain statutory limitations, the Council has power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its statutory functions.

### *Allocation of functions and responsibilities*

16. Who is responsible for undertaking what functions of the local authority (as well as for exercising any proper subsidiary powers) needs to be established and understood.

### **Access to Information**

17. Because a local authority is a creation of statute, and is separate from its membership, an elected councillor is not the council and therefore no councillor simply due to their status of a councillor can demand access to all information held by the local authority at any time.

18. Functions and responsibilities are allocated by the local authority in accordance with the law.
19. This basic public administrative law point needs to be accepted as it is the starting point to understanding access to information for councillors.
20. To gain access to information there must be established a “need” to know or the existence of statutory rights to access information.

#### *Information*

21. Information includes an expression of opinion, any recommendations and any decision made.

#### *Confidential information*

22. The term “confidential information” is sometimes used widely in its lay meaning.
23. In reality, “confidential information” has been given a statutory definition in legislation which gives it a tighter meaning.
24. For example, under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, regulation 2 defines “confidential information” as
  - (a) information provided to the local authority by a government department on terms (however expressed) which forbid the disclosure of the information to the public; or
  - (b) information the disclosure of which to the public is prohibited by or under any enactment or by the order of a court,and in either case, a reference to the obligation of confidence is to be construed accordingly.

#### *Exempt information*

25. The term “exempt information” is often informally referred to as confidential information.
26. But the term “exempt information” has a specific statutory meaning given under section 100I of the Local Government Act 1972 [Local Government Act 1972 \(legislation.gov.uk\)](http://legislation.gov.uk) and Schedule 12A to that Act [Local Government Act 1972 \(legislation.gov.uk\)](http://legislation.gov.uk). Please see Part 5 Section 2 (‘Access to Information Rules’) in the Council’s Constitution [PART 5 - Access to Information Rules.pdf \(modern.gov.co.uk\)](http://modern.gov.co.uk).

#### *Common law “need to know”*

27. Councillors are not permitted to simply go on a ‘fishing expedition’ through their local authority’s files. If a councillor’s motive for seeing information is indirect, improper or ulterior this may be raised as a bar.



28. If a councillor is a member of the particular body (such as a committee), they have the right to inspect documents relating to the business of that body (subject to any statutory constraints).
29. If a councillor is not a member of the particular body, the councillor would have to show good cause why sight of them is necessary to perform their duties. This is known as the common law “need to know” test – please see Part 5 Section 1 ‘Protocol for Councillors Rights to Information’ [PART 5 - Protocol for Councillors Rights to Information.pdf \(moderngov.co.uk\)](#)

#### *Statutory rights for councillors to information*

30. The local authority presently operates the Leader and Cabinet Executive model of local authority governance. This means that there is an allocation of functions between ‘council functions’ and ‘executive functions’ see, for example, the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 as amended [The Local Authorities \(Functions and Responsibilities\) \(England\) Regulations 2000 \(legislation.gov.uk\)](#).

#### *Council functions – All councillors - Proactive*

31. In addition to the ordinary qualified rights of access to information enjoyed by the public, all councillors have certain qualified rights under section 100F of the Local Government Act 1972.
32. The general rule is that any document which is in the possession or under the control of the local authority AND contains material relating to any business to be transacted at a meeting of the council or a committee or sub-committee, shall be open to inspection by any member of the council.
33. This general rule includes certain exempt information but only in two scenarios:
  - (a) information relating to the financial or business affairs of any particular person (including the authority holding that information) but which is not information which relates to any terms proposed or to be proposed by or to the authority in the course of negotiations for a contract (in other words, proposed contract terms whilst negotiations are ongoing are NOT disclosable to all councillors under section 100F). [This is paragraph 3 of Part I to Schedule 12A to the Local Government Act 1972].
  - (b) to the extent that it is information which reveals that the local authority proposes (i) to give under any enactment a notice under or by virtue of which requirements are imposed on a person; or (ii) to make an order or direction under any enactment. [This is paragraph 6 of Part I to Schedule 12A to the Local Government Act 1972].
34. This does not entitle any councillor to release such exempt information to the public, and councillors, being public servants, may be criminally liable for the indictable offence of misconduct in a public office if they unlawfully disclose information.

35. So, unless the exempt information comes within these two limited scenarios, there is no entitlement under section 100F of the Local Government Act 1972 for all councillors to gain access to exempt information.
36. This is a statutory regime and so it is not for any local authority to seek to extend statutory rights beyond that which Parliament has authorised.
37. The Monitoring Officer is the local authority's "proper officer" who decides, following the report author fully briefing them, whether in their opinion the meeting or part of the meeting is likely not to be open to the public or it appears to the proper officer that the document discloses exempt information – please see section 100B (1) [Local Government Act 1972 \(legislation.gov.uk\)](#) and section 100F (2) of the Local Government Act 1972 [Local Government Act 1972 \(legislation.gov.uk\)](#).
38. Councillors are reminded that exempt reports are marked "Not for publication" and with the description, in terms of Schedule 12A to this Act, of the exempt information by virtue of which the council are likely to exclude the public during the item to which the report relates – please see section 100B (5) of the Local Government Act 1972.

*Executive functions – All councillors – Proactive/Reactive*

39. In addition to the ordinary qualified rights of access to information enjoyed by the public, all councillors have certain qualified rights under regulation 16 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.
40. It is important to realise that regulation 16 is divided up between certain rights to access documents before a public meeting, and certain rights to access documents after the decision has been made.

Regulation 16 (1) – Public meeting - Proactive

41. The general rule is that any document which is in the possession or under the control of the executive AND contains material relating to any business to be transacted at a public meeting, shall be open to inspection by any member of the council, usually at least 5 clear days before that public meeting.
42. Please see paragraph 34 above for the same two scenarios in which exempt information may be accessed by all councillors. Again attention is drawn to the fact that there is no entitlement for all councillors to gain access to proposed contract terms whilst negotiations are ongoing. Also that it is not public inspection.

Regulation 16 (3) – After private meeting/ individual decision - Reactive

43. These qualified rights relate to "after the event" and so cannot be used proactively.
44. The general rule is that where any document is in the possession or under the control of the executive AND contains material relating to:
  - (i) any business transacted at a private meeting;
  - (ii) any decision made by an individual member in accordance with executive arrangements; or

- (iii) any decision made by an officer in accordance with executive arrangements such document must be made available for inspection by any member of the local authority when the meeting concludes or where an executive decision is made by an individual member or an officer immediately after the decision has been made or in any event within 24 hours.
45. Please see paragraph 34 above for the same two scenarios in which exempt information may be accessed by all councillors after the event. Again attention is drawn to the fact that there is no entitlement for all councillors to gain access to proposed contract terms whilst negotiations are ongoing. Also that it is not public inspection.
46. The Monitoring Officer is the local authority's "proper officer" who decides, following the report author fully briefing them, whether in their opinion the meeting or part of the meeting is likely to be private or it appears to them that the document discloses exempt information (please see regulation 7 (2) and 16 (5) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 [The Local Authorities \(Executive Arrangements\) \(Meetings and Access to Information\) \(England\) Regulations 2012 \(legislation.gov.uk\)](#)).
47. Exempt reports are marked "Not for publication" and marked that it contains confidential information or exempt information, giving the description, in terms of Schedule 12A to Local Government Act 1972, of the exempt information by virtue of which the decision-making body discharging the executive function are likely to exclude the public during the item to which the report relates – please see regulation 7 (5) [The Local Authorities \(Executive Arrangements\) \(Meetings and Access to Information\) \(England\) Regulations 2012 \(legislation.gov.uk\)](#).

*Executive functions – Certain relevant overview and scrutiny members - Reactive*

48. In addition to the ordinary qualified rights of access to information enjoyed by the public, certain overview and scrutiny members have qualified rights under regulation 17 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.
49. It is vital to understand that any such rights under regulation 17 are "after the event" and cannot be used proactively to obtain information before the business is transacted or the decision is made. This is a statutory regime and so no local authority can grant rights additional to those authorised by Parliament.
50. The general rule is that any document which is in the possession or under the control of the executive AND contains material relating to:
- (i) any business transacted at a meeting of a decision-making body of the local authority;
  - (ii) any decision that has been made by an individual member of the executive;
  - or
  - (iii) any decision that has been made by an officer in accordance with executive arrangements,
- AND a copy of which document a member of the overview and scrutiny committee has requested, the executive must provide that document as soon as reasonably practicable, and in any case no later than 10 clear days after the executive receives the request (unless the executive refuses such request under regulation 17 (4)).

51. The exception to this is that the qualified right under regulation 17 (2) does not include confidential information or exempt information unless that information is relevant to -
- (i) an action or decision that that member is reviewing or scrutinising; or
  - (ii) any review contained in any programme of work of such a committee or sub-committee of such committee. (please see regulation 17 (3) [The Local Authorities \(Executive Arrangements\) \(Meetings and Access to Information\) \(England\) Regulations 2012 \(legislation.gov.uk\)](#))
52. Whether to comply with the specific request is for the executive to determine. If the request is refused, the executive must supply the relevant overview and scrutiny committee with a written statement, setting out its reasons for such a decision (please see regulation 17 (4) [The Local Authorities \(Executive Arrangements\) \(Meetings and Access to Information\) \(England\) Regulations 2012 \(legislation.gov.uk\)](#)).
53. There is no right of appeal against a refusal of a request under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 [The Local Authorities \(Executive Arrangements\) \(Meetings and Access to Information\) \(England\) Regulations 2012 \(legislation.gov.uk\)](#).
54. For the avoidance of any doubt, it should be observed that the regulations expressly state that nothing in the 2012 regulations is to be taken to authorise or require the disclosure of confidential information in breach of the obligation of confidence – please see regulation 20 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 [The Local Authorities \(Executive Arrangements\) \(Meetings and Access to Information\) \(England\) Regulations 2012 \(legislation.gov.uk\)](#).
55. Councillors are, therefore, requested to note this report.

Contact Point: Christopher Potter, Monitoring Officer and Service Director Legal and Governance, ☎ 821000 e-mail [christopher.potter@iow.gov.uk](mailto:christopher.potter@iow.gov.uk)

CLAIRE SHAND  
*Director of Corporate Services*

This page is intentionally left blank

## AUDIT AND GOVERNANCE COMMITTEE WORKPLAN 2024-2025

<b>EXTERNAL AUDIT</b>	<b>Responsibility</b>	<b>18 Mar 2024</b>	<b>July 2024</b>	<b>Sept 2024</b>	<b>Dec 2024</b>	<b>Mar 2025</b>	<b>July 2025</b>	<b>Sept 2025</b>	<b>Dec 2025</b>
External Auditors Annual Report	Ernst & Young			✓2022-23				✓2023-24	
External Audit Results – Isle of Wight Council	Ernst & Young			✓2022-23				✓2023-24	
External Audit Plan – Isle of Wight Council	Ernst & Young		✓2023-24				✓ 2024-25		
External Audit Results – Isle of Wight Pension Fund	Ernst & Young	✓2022-23				✓2023-24			
External Audit Plan – Isle of Wight Pension Fund	Ernst & Young	✓2023-24				✓ 2024-25			
Value for Money Report	Ernst & Young	✓2022-23							
<b>ACCOUNTS</b>	<b>Responsibility</b>	<b>18 Mar 2024</b>	<b>July 2024</b>	<b>Sept 2024</b>	<b>Dec 2024</b>	<b>Mar 2025</b>	<b>July 2025</b>	<b>Sept 2025</b>	<b>Dec 2025</b>
Final Statement of Accounts	Barry Downer			✓2022-23	✓2023-24				
<b>INTERNAL AUDIT</b>	<b>Responsibility</b>	<b>18 Mar 2024</b>	<b>July 2024</b>	<b>Sept 2024</b>	<b>Dec 2024</b>	<b>Mar 2025</b>	<b>July 2025</b>	<b>Sept 2025</b>	<b>Dec 2025</b>
Internal Audit Progress Report (inc.any high-risk report)	Lizzi Goodwin	✓	✓	✓	✓	✓	✓	✓	✓
Internal Audit Plan	Lizzi Goodwin	✓				✓			
Internal Audit Annual Report (inc. Opinion)	Lizzi Goodwin		✓				✓		
Fraud & Irregularity Annual Report (inc. Whistleblowing)	Lizzi Goodwin				✓				✓
Tax Evasion Policy (triennial)	Lizzi Goodwin	✓							
Anti-Fraud Bribery Corruption Policy (triennial)	Lizzi Goodwin		✓						
Anti-Money Laundering Policy (triennial)	Lizzi Goodwin								
<b>GOVERNANCE</b>	<b>Responsibility</b>	<b>18 Mar 2024</b>	<b>July 2024</b>	<b>Sept 2024</b>	<b>Dec 2024</b>	<b>Mar 2025</b>	<b>July 2025</b>	<b>Sept 2025</b>	<b>Dec 2025</b>
Annual Governance Statement	Debbie Downer		✓DRAFT	✓FINAL			✓DRAFT	✓FINAL	
Property Investment Portfolio Annual Report	Graeme Haigh		✓				✓		
Procurement Half-Yearly Report	Alice Hadridge		✓		✓		✓		✓
Chairman’s Annual Report	Chairman	✓				✓			
Treasury Management Strategy Annual Report	Jo Cooke	✓				✓			
Treasury Management Report	Jo Cooke	✓ Q3	✓ ANNUAL	✓ Q1	✓ Q2	✓ Q3	✓ ANNUAL	✓ Q1	✓ Q2
The Council’s Risk Profile	Emma Bruce	✓	✓	✓	✓	✓	✓	✓	✓
Review of the Constitution (Verbal update)	Chairman	✓	✓	✓	✓	✓	✓	✓	✓
Future Governance Update	Chairman	✓	✓	✓	✓	✓	✓	✓	✓

This page is intentionally left blank