



**GOVERNANCE COMMITTEE**  
**MONDAY 6 FEBRUARY 2023 AT 10:00AM**  
**CIVIC CENTRE, RIDLEY STREET, REDCAR, YORKSHIRE, TS10 1TD**

**CONTACT**

Mr David Boville  
(01642) 444617  
26 January 2023

**CIRCULATION**

Councillors Morgan (Chair), Waterfield (Vice Chair), B Clarke, Gallacher, Holyoake, G Jeffery, I Nightingale, L Quartermain, Rider and V Smith.

Ms Lavelle, Mr Monson, Parish Councillor Clayton and a representative from Loftus Town Council.

Councillor G Nightingale (Cabinet Member – for information)

Managing Director (Head of Paid Service)

The Press [except for Confidential item(s)]

**Questions on Governance Committee Agenda Items**

In order that Members questions can be answered more fully at Governance Committee and to ensure good use of time, please would Members submit any questions they may have on the agenda items in advance of the meeting.

Questions should be sent to David Boville in advance of the meeting. The sooner questions are submitted the more likely it will be that the relevant information can be collected in time for the meeting. Questions can be submitted via email or hard copy using the form overleaf. Your Group Assistants will have a copy of this form. The questions received will be referred to the relevant officer to enable a response to be prepared in readiness for the meeting.

This does not preclude questions being asked at the meeting itself, however, it may not be possible to provide a full answer to these questions. In these circumstances, the question will be referred to the appropriate officer following the meeting and a response will be provided.

Questions should be sent to:

David Boville, Democratic Services Assistant

Civic Centre

01642 444617

[David.boville@redcar-cleveland.gov.uk](mailto:David.boville@redcar-cleveland.gov.uk)

# Governance Committee Questions

Date of Meeting \_\_\_\_\_

Question submitted by \_\_\_\_\_

Agenda item	Para Ref	Question



**GOVERNANCE COMMITTEE**  
**MONDAY 6 FEBRUARY 2023 AT 10:00AM**  
**CIVIC CENTRE, RIDLEY STREET, REDCAR, YORKSHIRE, TS10 1TD**

**CONTACT**

Mr David Boville  
(01642) 444617  
[date of dispatch]

**CIRCULATION**

Councillors Morgan (Chair), Waterfield (Vice Chair), B Clarke, Gallacher, Holyoake, G Jeffery, I Nightingale, L Quartermain, Rider and V Smith.

Ms Lavelle, Mr Monson, Parish Councillor Clayton and a representative from Loftus Town Council.

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Managing Director (Head of Paid Service)

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**A G E N D A**

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	<u>Pages</u>
1. Apologies for Absence.	
2. To confirm the Minutes of the meeting held on 28 November 2022.	4-6
3. To confirm the Minutes of the Assessment Sub-Committee meetings held on 18, 23 and 25 November 2022 and 14 December 2022.	7-16
4. Declarations of Interest.	
5. Internal Audit 2022/23 Work Programme Consultation. (Veritau)	17-21
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## GOVERNANCE COMMITTEE

28 November 2022

**GOVERNANCE COMMITTEE**

A meeting of the Governance Committee was held on 28 November 2022 at the Redcar & Cleveland Leisure and Community Heart.

**PRESENT** Councillor Morgan (Chair);  
Councillors B Clarke, Gallacher, Holyoake, I  
Nightingale, G Nightingale (substituting for  
Councillor G Jeffery), Rider and V Smith and Ms  
Lavelle and Mr Monson (Independent Members).

**OFFICIALS** G Barker (Director – External Audit),  
D Boville (Democratic Services Officer),  
D Clubb (Corporate Fraud Manager – Veritau),  
R Davisworth (Chief Accountant),  
C Dearden (Manager - External Audit),  
S Newton (Governance Director),  
V Smith (Business Manager – Corporate  
Resources)  
C Stannard (Principal Legal Officer) and  
M Thomas (Chief Executive – Veritau).

16. **APOLOGIES FOR ABSENCE** were submitted on behalf of Councillors G Jeffery, L Quartermain and Waterfield.

17. **MINUTES**

**RESOLVED** that the minutes of the Governance Committee meeting held on 26 September 2022 be confirmed and signed by the Chair as a correct record.

18. **MINUTES OF ASSESSMENT SUB-COMMITTEE MEETINGS**

**RESOLVED** that the minutes of the Assessment Sub-Committee meetings held on 1 February 2021, 22 April 2021, 6 July 2021, 5 November 2021, 1 December 2021, 10 December 2021, 4 February 2022, 22 February 2022, 24 May 2022 and 4 August 2022 be confirmed and signed by the Chair as a correct record.

19. **INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT**

The Chief Executive of Veritau presented an update on internal audit and counter fraud work undertaken to date.

A debate took place on the issues contained in the report. Some of the matters raised and discussed included:

28 November 2022

- There had been an increase in the amount of paperwork that needed to be completed in order for Members to utilise their ward allowances.
- The report should highlight where audits had been rescheduled and the reasons for this.
- There was a need for flexibility when delivering the work programme:-**NOTED**

20. **AUDIT COMPLETION REPORT**

The External Audit Director presented a summary of the conclusions from the audit of the 2020/21 accounts.

A debate took place on the issues contained in the report. Some of the matters raised and discussed included:

- In future, details of updates and issues with the Agresso system would be held on a central database, in line with best practice.
- It was difficult to determine what benefit there was in changing the way infrastructure assets were accounted for:-**NOTED**

21. **FINANCIAL STATEMENT OF ACCOUNTS 2021/22 AND EXTERNAL AUDITOR APPOINTMENT FOR 2023/24 TO 2027/28**

The Chief Accountant, on behalf of the Managing Director (Head of Paid Service), presented a reporting advising that the completion of the external audit of the Council's Statement of Financial Accounts had been delayed until at least February 2023 and that Mazars had been re-appointed as the Council's external auditors for a five-year period starting from 2023/24.

A debate took place on the issues contained in the report. Some of the matters raised and discussed included:

- The committee was being requested to agree an additional date to allow MAZARS to report on the Value for Money conclusion before the start of Purdah.
- The accounting audit was being held up due to delays in commencing the external audit of the Teesside Pension Fund, national issues relating to the valuation of infrastructure assets and further valuation work undertaken by the Council to revalue some elements of the Council's buildings.

**RESOLVED** that an additional meeting be scheduled for 13 March 2023 to accommodate the completion of the accounts process before the start of Purdah.

28 November 2022

22. **RIPA MONITORING REPORT FOR 2021/22**

The Principal Legal Officer, on behalf of the Managing Director (Head of Paid Service), presented a report on the applications made during the 2021/22 financial year in pursuance of the Regulation of Investigatory Powers Act 2000 (RIPA):-**NOTED**

23. **RISK MANAGEMENT AND RISK REGISTER UPDATES**

The Business Manager – Corporate Resources, on behalf of the Managing Director (Head of Paid Service), presented the bi-annual update of the Corporate Risk Register.

A debate took place on the issues contained in the report. Some of the matters raised and discussed included:

- It was important to distinguish between issues that were a specific risk to the Council and general issues that could affect any local authority.
- Clear information needed to be provided on why risk scores had changed:-**NOTED**

24. **ANNUAL OMBUDSMAN LETTER**

The Business Manager – Corporate Resources, on behalf of the Managing Director (Head of Paid Service), presented a summary of complaints activity received from the Local Government and Social Care Ombudsman:-**NOTED**

25. **COMMITTEE WORK PROGRAMME**

The Chief Accountant, on behalf of the Managing Director (Head of Paid Service), presented the Governance Committee Work Programme for information:-**NOTED**

## ASSESSMENT SUB-COMMITTEE

18 November 2022

**ASSESSMENT SUB-COMMITTEE**

A meeting of the Assessment Sub-Committee was held on 18 November 2022.

**PRESENT** Mr Monson (Chair and Independent Member)  
Councillors Holyoake and V Smith.

**OFFICIALS** S Fenwick and A Nixon

**IN ATTENDANCE** Irene Lavelle – Independent Member

**APOLOGIES FOR ABSENCE** were submitted on behalf of Mr Manship, Independent Person

6. **EXCLUSION OF THE PRESS & PUBLIC**

**RESOLVED** that the press and public be excluded from the meeting on the grounds that items 5 & 6 contained exempt information as defined in Paragraphs 1 of and 2 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

7 **DISCLOSURE/CONFLICTS OF INTERESTS**

The Monitoring Officer circulated the Governance Committee Local Assessment/Conflicts of Interest Guidance for Members and Officers. The Sub-Committee considered the guidance and agreed that, in relation to the complaint, there were no conflict of interests of the Members or Officers in attendance: - **NOTED**.

8. **ARRANGEMENTS FOR DEALING WITH COMPLAINTS ABOUT THE CODE OF CONDUCT FOR MEMBERS.**

For the Sub-Committee's information, the Monitoring Officer circulated a copy of the arrangements for dealing with complaints about the Code of Conduct for Members: - **NOTED**.

9. **REPORT INTO ALLEGATION OF BREACH OF THE MEMBERS' CODE OF CONDUCT - REF: GC12/2022**

The Sub-Committee considered a complaint made against a Councillor in respect of their conduct. The complainant alleges that the Councillor acted against the Code of Conduct by making unjustified unsubstantiated personal attacks and acting unfairly and in a prejudiced manner on social media.

## ASSESSMENT SUB-COMMITTEE

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18 November 2022

The views of the Independent Person were sought by the Sub-Committee who felt that no further action should be taken.

In addition, the Councillor involved had also submitted a written response which was considered by the Sub-Committee.

**RESOLVED** that in respect of Case Ref: GC12/2022 the complaint was partially upheld and that the case be referred to the Monitoring Officer for other action. Namely, that the Monitoring Officer meets with the Councillor concerned to discuss the appropriate use of language on social media when they are acting as a Councillor

10. **REPORT INTO ALLEGATION OF BREACH OF THE MEMBERS' CODE OF CONDUCT - REF: GC13/2022 and GC14/2022**

The Sub-Committee considered two connected complaints that had been received from Skelton & Brotton Parish Council in respect of the conduct of two Councillors.

The complaints concerned allegations of bullying concerned facebook postings made by both Councillors, as well as a complaint about their alleged conduct at a Parish Council meeting.

The views of the Independent Person were sought by the Sub-Committee who felt that no further action should be taken.

In addition, the Councillors involved had also submitted written responses which was considered by the Sub-Committee.

**RESOLVED** that in respect of Case Ref: GC13/2022 and GC14/2022, it was agreed that both complaints were not upheld and therefore no further action was necessary.

11. **REPORT INTO ALLEGATION OF BREACH OF THE MEMBERS' CODE OF CONDUCT - REF: GC15/2022**

The Sub-Committee considered a complaint made against two Councillors (Councillors (a) and (b)) in respect of their conduct.

The complaint concerned a series of matters which the complainant alleged amounted to bullying, harassment and abuse by Councillor (a); and, allegations that Councillor (b)'s behaviour supported that alleged bullying. In addition there was some older allegations relating to behaviour in meetings.

The views of the Independent Person were sought by the Sub-Committee who felt that no further action should be taken.



## ASSESSMENT SUB-COMMITTEE

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18 November 2022

In addition, the Councillors involved had also submitted written responses which was considered by the Sub-Committee.

**RESOLVED** that in respect of Case Ref: GC15/2022 it was agreed that:

1. With regards to Councillor (a), the matter be referred for other action, namely that the Monitoring Officer offer to arrange a meeting to attempt conciliation between the complainant and Councillor (a); and,
2. With regards to Councillor (b) the complaint was not upheld and therefore no further action was necessary.

## GOVERNANCE ASSESSMENT SUB-COMMITTEE

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23 November 2022

### GOVERNANCE ASSESSMENT SUB-COMMITTEE

A meeting of the Governance Assessment Sub-Committee was held on 23 November 2022.

#### PRESENT

Mr Monson (Chair and Independent Member)  
Councillors Clarke and Morgan

Mr Manship (Independent Person)

#### OFFICIALS

S Fenwick, Principal Democratic Services & Scrutiny Officer (RCBC)

J Goolden as Deputy Monitoring Officer and  
R Lindley-McGovern, Wilkin Chapman LLP

#### 12. EXCLUSION OF THE PRESS & PUBLIC

**RESOLVED** that the press and public be excluded from the meeting on the grounds that items 5 & 6 contained exempt information as defined in Paragraphs 1 of and 2 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

#### 13. DISCLOSURE/CONFLICTS OF INTERESTS

The Sub-Committee considered the Governance Committee Local Assessment/Conflicts of Interest guidance and the Chair advised that, as the Monitoring Officer from Redcar and Cleveland Borough Council could be seen as having a personal conflict of interest with his duties as Monitoring Officer in relation to this complaint, an external Deputy Monitoring Officer from Wilkin Chapman LLP had been appointed.

There were no conflict of interests of the Members or Officers in attendance: - **NOTED.**

#### 14. ARRANGEMENTS FOR DEALING WITH COMPLAINTS ABOUT THE CODE OF CONDUCT FOR MEMBERS.

For the Sub-Committee's information, the Deputy Monitoring Officer circulated a copy of the arrangements for dealing with complaints about the Code of Conduct for Members: - **NOTED.**

23 November 2022

15. **REPORT INTO ALLEGATION OF BREACH OF THE MEMBERS' CODE OF CONDUCT - REF: GC10/2021 and GC14/2021**

The Sub-Committee considered two complaints made against a Councillor in respect of their conduct. The complainants allege that the Councillor had acted against the Code of Conduct by misuse of position with various other related issues and sub-allegations.

An Investigating Officer had been appointed to carry out an Independent Investigation and that report had been provided for the Assessment Sub-Committee and the Independent Person's consideration.

**RESOLVED** that in respect of Case Ref: GC10/2021 and GC14/2021 the Sub-Committee unanimously agreed that the matters raised in the report were sufficient to go forward to a Hearings Panel.

This decision was made for the following reason:

The Sub-Committee agreed that there appeared to have been a breach in the Code of Conduct and, taking into account the view of the Independent Person, felt that a Hearings Panel should take place to allow the subject of the complaint a further opportunity to explain their position and for the Committee to decide what, if any, action should be taken in respect of the Member.

## ASSESSMENT SUB-COMMITTEE

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25 November 2022

### ASSESSMENT SUB-COMMITTEE

A meeting of the Assessment Sub-Committee was held on 25 November 2022.

**PRESENT** Irene Lavelle (Chair and Independent Member)  
Councillors Holyoake and Morgan.

Mr Manship (Independent Person)

**OFFICIALS** S Fenwick and C Stannard

16. **EXCLUSION OF THE PRESS & PUBLIC**

**RESOLVED** that the press and public be excluded from the meeting on the grounds that the following items contained exempt information as defined in Paragraphs 1 and 2 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

17. **DISCLOSURE/CONFLICTS OF INTERESTS**

The Monitoring Officer circulated the Governance Committee Local Assessment/Conflicts of Interest Guidance for Members and Officers. The Sub-Committee considered the guidance and agreed that, in relation to the complaint, there were no conflict of interests of the Members or Officers in attendance

Ms Lavelle did however declare that she was part of a social group that a Councillor attended but felt that there was no conflict of interest: - **NOTED**

18. **REPORT INTO ALLEGATION OF BREACH OF THE MEMBERS' CODE OF CONDUCT - REF: GC16/2022, GC17/2022 and GC19/2022**

At this point in the meeting the Sub-Committee were advised that in the absence of a Parish Councillor being present at the meeting Case Ref No's: GC17/2022 and GC19/2022 should be deferred to a future meeting. It was also suggested that as Case Ref: GC16/2022 related to the same matter this should also be considered at the same meeting.

**RESOLVED** that Case Ref: GC16/2022, GC17/2022 and GC19/2022 be deferred and considered at a future meeting.

25 November 2022

19. **REPORT INTO ALLEGATION OF BREACH OF THE MEMBERS' CODE OF CONDUCT - REF: GC18a/2022 and GC18b/2022**

The Sub-Committee considered a complaint made against two Borough Councillors regarding separate, but linked instances.

With regards to the first complaint (GC18a/2022), the Complainant alleged that the Subject Member had breached the Code of Conduct in relation to bullying, harassment, discrimination and confidentiality by providing a statement to an Employment Tribunal specifically mentioning the Complainant in relation to concerns about bullying.

The second complaint (GC18b/2022) also concerned allegations that the Subject Member had breached the Code of Conduct in relation to bullying, harassment, discrimination and confidentiality by stating during a meeting with a claimant who had brought an Employment Tribunal case against the Council, that the Complainant had been suspended and that bullying within the Council was "rife".

The views of the Independent Person were sought by the Sub-Committee. The Independent Person felt that it was clear that both Subject Members were acting as Councillors at the time and that the matter should be referred for further investigation.

In addition, both Councillors involved had submitted written responses to the complaints which were also considered by the Sub-Committee.

**RESOLVED** that in respect of Case Ref: GC18a/2022 and GC18b/2022 the matters be referred for further investigation.

## ASSESSMENT SUB-COMMITTEE

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14 December 2022

### ASSESSMENT SUB-COMMITTEE

A meeting of the Assessment Sub-Committee was held on 14 December 2022.

**PRESENT** Irene Lavelle (Chair and Independent Member)  
Councillors Clarke and Morgan.

Mr Manship (Independent Person)

**OFFICIALS** S Connolly and C Stannard

#### 20. **EXCLUSION OF THE PRESS & PUBLIC**

**RESOLVED** that the press and public be excluded from the meeting on the grounds that the following items contained exempt information as defined in Paragraphs 1 and 2 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

#### 21. **DISCLOSURE/CONFLICTS OF INTERESTS**

The Monitoring Officer circulated the Governance Committee Local Assessment/Conflicts of Interest Guidance for Members and Officers. The Sub-Committee considered the guidance and agreed that, in relation to the complaint, there were no conflict of interests of the Members or Officers in attendance

Ms Lavelle did however declare that she was part of a social group that a Councillor attended but felt that there was no conflict of interest: - **NOTED**.

#### 22. **REPORT INTO ALLEGATION OF BREACH OF THE MEMBERS' CODE OF CONDUCT - REF: GC16/2022**

The Sub-Committee considered a complaint made against a Borough Councillor. The complaint concerned an allegation surrounding the Subject Member's conduct during and after a meeting which was facilitated by Lockwood Parish Council. In particular it was alleged that the Councillor was pointing aggressively in a Parish Councillor's face and shouting in an abusive and aggressive manner.

## ASSESSMENT SUB-COMMITTEE

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14 December 2022

The Subject Member was given the opportunity to respond to the complaint and written responses and emails were received which were considered by the Sub-Committee. The Sub-Committee discussed two particular allegations that the Subject Member raised firstly the complaints procedure itself and in particular anonymising complainant's details when advising Subject Members of complaints and secondly a data protection breach.

The Principal Legal Officer clarified that the complaint form suggested that complainants' details would be removed for data protection purposes, but names of complainants would be given, unless there was a specific reason not too. With regards to the data breach this had been reported and the outcome would be reported back to the Councillor in due course.

The views of the Independent Person were also sought by the Sub-Committee who felt that no further action was required.

**RESOLVED** that in respect of Case Ref: GC16/2022 no further action be taken.

23. **REPORT INTO ALLEGATION OF BREACH OF THE MEMBERS' CODE OF CONDUCT - REF: GC17/2022**

The Sub-Committee considered a complaint made against a Parish Councillor. The complaint concerned an allegation regarding the content of a letter sent by the subject member as Chair of the Lockwood Parish Council to the Complainant. The Complainant alleged that the letter contained defamatory statements and was threatening.

The Subject Member was given the opportunity to respond to the complaint and a written response was considered by the Sub-Committee.

The views of the Independent Person were also sought by the Sub-Committee who felt that no further action was required.

**RESOLVED** that in respect of Case Ref: GC/17/2022 the case be referred to the Monitoring Officer for other action. Namely that the Monitoring Officer meets with the Parish Councillor concerned to discuss more appropriate ways of communicating with members of the public.

14 December 2022

24. **REPORT INTO ALLEGATION OF BREACH OF THE MEMBERS' CODE OF CONDUCT - REF: GC19/2022**

The Sub-Committee considered a complaint made against a Parish Councillor. The complaint concerned an allegation that the Subject Member made aggressive remarks to the Complainant causing intimidation during a meeting facilitated by the Parish Council regarding a planning application which the subject member chaired.

The Subject Member was given the opportunity to respond to the complaint and a written response was considered by the Sub-Committee.

The views of the Independent Person were also sought by the Sub-Committee who felt that no further action was required.

**RESOLVED** that in respect of Case Ref: GC/19/2022, no further action be taken.



# Member Report

## Internal Audit Work Programme consultation



# Public

**To:** Governance Committee

**Date:** 6.2.23

**From:** Please select

**Decision type:** For information

**Portfolio:** Resources

**Forward Plan**

**Priority:** Please select

**Reference:**

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### HEADLINE POSITION

#### 1 Summary of report

- 1.1 The purpose of the report is to seek initial views of Members on priorities for internal audit work during 2023/24 to help inform the preparation of the annual internal audit work programme.

#### 2 Recommendation

- 2.1 The Committee is asked to comment on areas that they consider a priority for audit in 2023/24.

### DETAILED PROPOSALS

#### 3 What are the objectives of the report and how do they link to the Council's priorities?

- 3.1 Internal audit provides independent and objective assurance and advice about the Council's operations. It helps the organisation to achieve overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.
- 3.2 The Public Sector Internal Audit Standards (PSIAS), and the Council's internal audit charter require internal audit to draw up an indicative programme of work based on an assessment of risk. The standards require internal audit to independently form a view on the risks facing the council. However, they also require the opinions of the Governance Committee and senior council officers to be taken into account when forming that view.

#### Consultation on 2023/24 internal audit work programme

- 3.3 A flexible approach to audit planning has been in place since 2020/21. Under this approach, an indicative long list is developed at the start of the year. The long-list includes all areas that are likely to be important for audit in the year. However, it is over-programmed (it includes more work than it is possible to complete). Actual work to be undertaken is selected from the long list throughout the year based on an ongoing assessment of risks and priorities. This approach allows us to keep upcoming work under review, to ensure we are targeting audit resources to those areas most needed. It also builds in flexibility, by enabling us to respond quickly to emerging issues or to commence work on other areas of

importance when risks and priorities change. The long list is also kept under review during the year. Potential audits are added or removed as required.

- 3.4 The indicative programme is informed by a number of factors such as the Council's risk registers, relevant national issues and our wider audit knowledge, including the results of recent audit work. The Council's external auditors (Mazars) are also consulted to avoid possible duplication of work programmes and to maximise the overall benefit of audit activity. The draft work programme will be presented to the Governance Committee in April 2023, for approval.
- 3.5 Internal audit work programmes cover a range of risk areas to ensure that overall, the work undertaken will enable the service to meet the requirement of the standards to provide an overall opinion on the framework of governance, risk management, and control operating in the Council. We have defined 11 key areas where we require assurance during the course of the year in order to provide that opinion, as follows:
- Strategic planning
  - Organisational governance
  - Financial governance
  - Risk management
  - Information governance
  - Performance management and data quality
  - Procurement and contract management
  - People management
  - Asset management
  - Programme and project management
  - ICT governance
- 3.6 In practice, the indicative programme will be structured into a number of sections, as set out below. In assessing what work is included in each area, consideration is given to the priorities listed at paragraph 3.5.
- **Strategic / corporate & cross cutting** – to provide assurance on areas which, by virtue of their importance to good governance and stewardship, are fundamental to the ongoing success of the council.
  - **Technical / projects** – to provide assurance on those areas of a technical nature and where project management is involved. These areas are key to the council as the risks involved could detrimentally affect the delivery of services.
  - **Financial systems** – to provide assurance on the key areas of financial risk. This helps provide assurance to the council that risks of loss or error are minimised.
  - **Service areas** – to provide assurance on key systems and processes within individual service areas. These areas face risks which are individually significant but which could also have the potential to impact more widely on the operations or reputation of the council if they were to materialise.
  - **Other assurance areas** – an allocation of time to allow for continuous audit planning and information gathering, unexpected work, and the follow up of work we have already carried out, ensuring that agreed actions have been implemented by management.
  - **Client support, advice & liaison** – work we carry out to support the council in its functions. This includes the time spent providing support and advice, and liaising with staff.
- 3.7 The table at 3.9 below includes some initial ideas on areas for consideration for audit in 2023/24. These are included to prompt discussion and are not intended to be a definitive or complete list of areas that could be reviewed.
- 3.8 The committee's views are sought about areas they consider a priority for audit in 2023/24. This may include particular areas listed in figure 1 that they think should be a high priority (or that may be less important) or any other areas which should be considered for audit.

Area	Possible Work
Strategic / corporate & cross-cutting	<ul style="list-style-type: none"> <li>• Medium term financial planning and budgeting, budget management, commercialisation and investment strategy, financial resilience;</li> <li>• Areas of the council's corporate governance framework (e.g. schemes of delegation, constitution, complaints process, standards);</li> <li>• Strategic Planning (e.g. policies and procedures, the Council Plan);</li> <li>• Risk management, disaster recovery plans and insurance arrangements;</li> <li>• Performance management and data quality;</li> <li>• Partnership working;</li> <li>• Procurement and contract management (including supply chain resilience third party risk, due diligence, Modern Slavery Act compliance);</li> <li>• Ethics and organisational culture;</li> <li>• HR and organisational development / workforce planning (e.g., homeworking arrangements, management and supervision of remote teams, staff wellbeing, succession planning, training and development);</li> <li>• Information governance and data protection – compliance, management of information assets, data breach management, data sharing agreements, data storage arrangements, training;</li> <li>• Environment, climate change and waste – air pollution, carbon footprint, recycling, electric vehicle usage; and</li> <li>• Health and safety.</li> </ul>
Technical / projects	<ul style="list-style-type: none"> <li>• Overall corporate arrangements; and</li> <li>• Review of specific key projects</li> <li>• IT Information security (such as server configuration, patch management and operating system configuration)</li> <li>• IT Services (such as help desk, incident management and network availability);</li> <li>• Cyber security; and</li> <li>• Digitalisation / automation</li> </ul>
Financial systems	<ul style="list-style-type: none"> <li>• Payroll/personnel;</li> <li>• General ledger, debtors (including debt recovery and enforcement practice), creditors, cash income;</li> <li>• Capital accounting and assets;</li> <li>• Council Tax/ NNDR &amp; benefits</li> </ul>
Service areas	<ul style="list-style-type: none"> <li>• Adult and children's social care – budget management, workforce planning, case management, placements, referrals and assessments, recruitment &amp; retention, procurement, quality assurance, capacity, contract monitoring, deprivation of liberties, direct payments.</li> <li>• Special Education Needs and Disability (SEND) – EHC plans (processes), planning, working with partners, funding;</li> <li>• Public health including management of contracts</li> <li>• Housing strategy, use of temporary accommodation and homelessness;</li> <li>• Other risks relating to specific service areas (such as schools, planning, local plan strategy, estates, leisure services, waste collection and recycling, licensing, community safety,</li> </ul>

	environmental health, economic development, domestic violence strategies);
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#### 4 What options have been considered

4.1 There are no other options, the report is for information and comment.

#### 5 Impact assessment

Type of Risk/ Implication	Details
Climate Emergency Impact	There are no direct implications from this report, although elements of council arrangements for managing climate risks may be considered as part of the internal audit plan. This applies to a number of the other risk areas below.
Health and Safety	The work of Veritau contributes to the effective management of the council's health and safety risks
Social Value	The work of Veritau supports overall aims and priorities by promoting probity, integrity and honesty and by helping to make the council a more effective organisation.
Legal	The work of Veritau contributes to the effective management of the council's legal and regulatory risks
Financial	The work of Veritau contributes to the effective management of the council's financial risks
Human Resources	The work of Veritau contributes to the effective management of employment related risks
Equality and Diversity	The work of Veritau contributes to the effective management of risks associated with equalities and diversity
Other (please specify)	No other specific risks.

#### 6 Consultation and Engagement

6.1 This report is part of the ongoing consultation with stakeholders on priorities for internal audit work for 2023/24.

#### 7 Appendices and background papers

7.1 None

## **8 Contact officer**

8.1 Name: Max Thomas  
Position: Head of Internal Audit – Veritau  
Address: Redcar and Cleveland House  
Telephone: 01904 5529340  
Email: [max.thomas@veritau.co.uk](mailto:max.thomas@veritau.co.uk)

# Member Report

## Counter Fraud Framework Report – Whistleblowing Policy



## Public

**To:** Governance Committee **Date:** 06.02.23  
**From:** Please select **Decision type:** Committee  
**Portfolio:** Resources **Forward Plan Reference:**  
**Priority:** All Priorities

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### HEADLINE POSITION

#### 1 Summary of report

- 1.1 The report introduces a new whistleblowing policy for Redcar and Cleveland Borough Council that reflects current best practices.

#### 2 Recommendation

- 2.1 It is recommended that the Governance Committee:
- approves the whistleblowing policy annex 1.

### DETAILED PROPOSALS

#### 3 What are the objectives of the report and how do they link to the Council's priorities?

- 3.1 Redcar Cleveland Borough Council is committed to maintaining high standards of integrity and accountability. It aims to create an open environment in which employees and those working on behalf of the Council can raise issues and be confident that they will be acted upon.
- 3.2 The whistleblowing policy forms part of the Council's wider policy framework, which also includes the anti fraud, bribery and corruption policy, grievance procedure, dignity at work policy, and complaints procedures. The whistleblowing policy details the specific protections afforded to workers under the Public Interest Disclosure Act 1998 and the arrangements in place to allow them to raise concerns. Employers who subject workers to detriment (such as dismissal or unfair treatment) due to them blowing the whistle can be ordered to pay compensation at an employment tribunal. Workers who do not feel that their concerns have been addressed are entitled to raise their concerns outside of their organisation to relevant prescribed bodies as detailed within legislation (for example the Health and Safety Executive and OFSTED).
- 3.3 A proposed new whistleblowing policy is included at annex 1. It sets out how the Council will respond to whistleblowing reports, clarifies who is protected by the Public Interest Disclosure Act 1998, and directs individuals to the appropriate process to report their

concerns where whistleblowing arrangements do not apply. New guidance for managers on responding to reports of whistleblowing is provided at appendix A of the policy.

#### 4 What options have been considered

4.1 Not applicable.

#### 5 Impact assessment

Type of Risk/ Implication	Details
Climate Emergency Impact	There are no direct implications from this report.
Health and Safety	Risks to health and safety that have occurred, are occurring or may occur constitute areas of under which whistleblowing reports can be made.
Social Value	Whistleblowing arrangements support the Council is identifying and addressing issues that could affect its ability to appropriately manage resources and serve the community.
Legal	Legal guidelines have been considered in writing the whistleblowing policy.
Financial	Wrongdoing can result in financial losses to the Council. Whistleblowing arrangements promote the reporting and resolution of potential issues.
Human Resources	Whistleblowers are provided protection in their employment under the Public Interest Disclosure Act 1998. The policy also details action the Council will take to protect and support those raising concerns.
Equality and Diversity	Whistleblowing reports may include breaches of equality and diversity legislation that constitute criminal offences.
Other (please specify)	No other specific risks

#### 6 Consultation and Engagement

6.1 This whistleblowing policy at annex 1 has been shared with the Council's Resources Directorate Management Team and Executive Management Team.

#### 7 Appendices and background papers

7.1 Annex 1 – Whistleblowing policy

#### 8 Contact officer

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# **WHISTLEBLOWING POLICY**

## 1 INTRODUCTION

- 1.1 This policy provides a framework for employees, workers, and contractors to raise concerns about issues happening at the Council. For example, health and safety risks, criminal or unlawful activity, or activities that could damage the environment. It sets out how concerns can be raised and the protection that people working for the Council have if they raise an issue.
- 1.2 This policy covers concerns raised by employees, workers, and contractors. It reflects the specific protections they have in law when making a protected disclosure. This is also known as raising a whistleblowing concern or blowing the whistle. Further information on what a protected disclosure is, and who the law protects is set out below.
- 1.3 Redcar Cleveland Borough Council is committed to maintaining high standards of integrity and accountability. It aims to create an open environment in which employees and those working on behalf of the Council can raise issues and be confident that they will be acted upon. The Council's message to anyone working for the council is straightforward - if in doubt, raise it!
- 1.4 The Public Interest Disclosure Act 1998 (PIDA) is the law that protects people against detrimental treatment or dismissal if they make a protected disclosure. It is part of the Employment Rights Act 1996. This policy is designed to reflect the legislation<sup>1</sup> as well as guidance from the government and other organisations<sup>2</sup>.
- 1.5 A guide for managers and other employees on what to do if they receive a whistleblowing report is contained in appendix A of this policy.

## 2 AIMS AND SCOPE OF THE POLICY

- 2.1 This policy aims to:
  - encourage workers to raise concerns they have about their workplace or working practices
  - make sure managers know what a whistleblowing concern is and how they must address it
  - ensure that workers receive a response to any concern raised
  - inform workers about how they can pursue an issue further if they are not satisfied with the action taken by the Council

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<sup>1</sup> PIDA 1998 was updated by the Enterprise and Regulatory Reform Act 2013.

<sup>2</sup> Whistleblowing guidance has been issued by the Department for Business, Energy & Industrial Strategy, the National Audit Office and the charity, PROTECT.

- reassure workers that they will be protected from dismissal or negative treatment if they raise concerns.
- 2.2 This policy applies to most people working for the Council. This includes employees, workers, staff in maintained schools, agency personnel, contractors and staff seconded to or from a third party. Throughout the rest of the policy, the terms worker, or workers is used to mean anyone covered by the policy and the protections of PIDA.
- 2.3 PIDA does not provide protection under the law for job applicants, genuinely self-employed workers, or volunteers.
- 2.4 Elected Members of the Council do not fall within the ambit of PIDA and should raise concerns with one of the Council's Statutory Officers – i.e. the Monitoring Officer, Section 151 Officer or Head of Paid Service.
- 2.5 Members of the public wishing to raise concerns about fraud occurring at or against the Council can contact the counter fraud team. Further details are available at <https://www.redcar-cleveland.gov.uk/about-the-council/fraud>.

#### Definitions

- 2.6 Protected disclosures are concerns raised that are protected under PIDA. To be a protected disclosure, anyone raising a concern must:
- reasonably believe that their concern is in the public interest – this is explained in paragraph 2.6.
  - reasonably believe their concern is a type of wrongdoing covered by the law – a list of the types is included in paragraph 2.7.
  - raise it in a way that that is in accordance with the law – further information on this is provided in section 7.
- 2.7 A reasonable belief is one where the whistleblower has some reasonable grounds or basis for believing there has been wrongdoing. It does not actually have to be true. For example, it does not matter if it turns out they were mistaken if they had reasonable grounds for believing it when they originally raised the concern.
- 2.8 An issue in the public interest means that it will usually affect people other than just the person raising it. Something that relates only to an individual's own employment may not be covered by the law. Although there are some circumstances when this could still be in the public interest. For example, an issue about bullying or harassment that reflects a wider cultural issue in a team. This policy is intended to cover workers raising an issue in the public interest. If a person needs to address a

problem that relates only to their own employment, then they should refer to the Grievance Procedure or Dignity at Work Policy as appropriate.

2.9 The list below sets out the types of concerns that qualify for protection under the law if they are raised.

- A criminal offence – for example corruption, theft, or fraud.
- Failure to comply with a legal obligation such as a statutory requirement, a contract, or common law obligations (eg negligence).
- A miscarriage of justice.
- Health and safety risks. This includes risks to anyone, not just workers – for example risks to customers and service users.
- Environmental damage – any wrongdoing that endangers or damages the environment.
- Cover up. This includes anything where wrongdoing in any of the above areas has been deliberately concealed.

### **3 SAFEGUARDS**

3.1 The Council recognises that a decision to report a concern can be a difficult one. In many cases it is workers who are best placed to learn of wrongdoing within service areas and schools or to hear about issues where standards have fallen below those that the Council and public expect. The Council is grateful to everyone who reports their concerns.

3.2 Workers should have nothing to fear by reporting their concerns if they have grounds for believing what they are reporting is true. Even if it is later found to be incorrect. No action will be taken against anyone genuinely reporting a concern.

3.3 While rare, deliberately false reports are sometimes made. If false or deliberately misleading information is provided, then this would be considered a serious matter. It could result in action being taken under the Council's disciplinary procedure. Equally, deterring another worker from reporting a genuine concern is also a serious matter and may result in disciplinary action being taken.

3.4 The Council will not tolerate any negative treatment (including harassment or victimisation) of a worker who has raised a whistleblowing concern, by anyone (including colleagues and managers). Any allegations of negative treatment of someone raising a concern will be investigated. Where evidence of mistreatment is found then this could result in disciplinary action being taken.

- 3.5 The Council recognises that workers may want to raise a concern in confidence under this policy. If a worker asks the Council to protect their anonymity, then efforts will be made to protect their identity from being disclosed. However, this cannot be guaranteed. For example, if evidence needs to be presented in court, or revealed as part of a subsequent investigation. If it becomes clear that a whistleblower's anonymity cannot be protected, then this will be discussed with them before any disclosure is made.
- 3.6 The Council encourages workers to put their names to information they disclose. Concerns expressed anonymously will be considered by the Council. However, they can be harder to investigate. This may make it more difficult to gather evidence to confirm wrongdoing. It will also not be possible to provide feedback to an anonymous whistleblower during or following an investigation. Anonymous reports are however preferred to silence.

#### **4 HOW TO RAISE A CONCERN**

- 4.1 Many whistleblowing concerns are raised and properly addressed within individual service areas. In most cases, workers are therefore encouraged to raise concerns with their line manager in the first instance<sup>3</sup>. Line managers will provide feedback to the whistleblower about the action they are taking. Contractors should report issues to the Council's designated contract or client manager.
- 4.2 Concerns do not have to be made in writing. Any issues raised verbally will be treated just as seriously.
- 4.3 If a worker raises an issue with their line manager but it is not adequately addressed or if the concern involves the line manager, then they should speak to a more senior officer. School-based workers can escalate issues to the head teacher/chair of governors.
- 4.4 The Council recognises that there may be times when whistleblowers feel unable to speak to anyone in their own service area. For example, if they believe the issue involves more senior officers or if the issue has already been raised through the normal channels but has not been addressed. In this situation workers can contact the Council's independent whistleblowing hotline on 0800 9179 247, which is overseen by Veritau.

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<sup>3</sup> People raising a concern may not directly say they are whistleblowing or making a protected disclosure. It is therefore essential that managers understand when an issue raised with them would be considered whistleblowing. Further information is available in the guidance notes included with this policy. Managers can also contact Veritau for advice on any issues raised.

- 4.5 If anonymous concerns are raised through social media, then they will be considered under the more general counter fraud or complaints policies unless it is beyond doubt that the person raising the concern would fall under the whistleblowing policy.

## **5 HOW THE COUNCIL WILL RESPOND**

- 5.1 All whistleblowing reports will be carefully considered. Initial enquiries will be made to help decide whether an investigation is needed or what action may be required.
- 5.2 The Council aims to acknowledge all whistleblowing reports within five working days. The line manager or other officer dealing with a whistleblowing issue will try to write or speak to the whistleblower promptly, to provide additional information on what is being done. For example, whether an investigation is needed or if specific action is to be taken.
- 5.3 If an investigation is undertaken, the line manager or investigating officer will provide feedback on the outcome, and details of action to be taken as far as possible. Although it may not always be possible to provide full details. For example, it would not be appropriate to share personal data about other people.

## **6 INVESTIGATION AND REPORTING PROCESS**

- 6.1 The steps line managers need to take will depend on the nature, complexity, and seriousness of the issue raised. An outline of the process managers should follow is set out below. Further information for managers on who they need to inform about whistleblowing issues is set out in the guidance at appendix A.
- 6.2 Straightforward whistleblowing issues may be dealt with directly by line managers. The manager must ensure the requirements for acknowledging concerns and providing feedback are followed (see section 5 above). When the issue has been dealt with, the line manager must provide details to Veritau of the concern raised and the outcomes (Veritau keeps a record of all whistleblowing concerns raised, on behalf of the Council).
- 6.3 For more complex cases, and any case involving suspected fraud, corruption, or theft, managers must refer the issue to Veritau at the outset. Veritau will liaise with the manager to decide how the issue should be investigated. The officers assigned to investigate each case will depend on the nature of the issue. For example, safety issues may be investigated by the Health & Safety Team, alleged fraud or criminality by the Counter

Fraud Team, or employment issues by the manager or a manager from another team, with support from Human Resources.

- 6.4 The amount of contact between officers investigating whistleblowing concerns and the whistleblower will depend on the nature of the matters raised and the clarity of the information provided. If necessary, further information may be sought from the whistleblower.
- 6.5 If a face to face meeting is necessary or desirable the whistleblower has the right, if they so wish, to be accompanied by a Trade Union representative or a work colleague who is not involved in the area of work to which the concern relates.
- 6.6 The Council will take steps to support whistleblowers during an investigation, where possible. For example, if they are required to give evidence in any proceedings, the Council will provide advice and support with the process as far as appropriate. Whistleblowers should contact HR if they suffer any negative treatment as a result of raising an issue. Investigating managers should be alert to the possibility of a whistleblower being mistreated and should liaise with the Strategic HR Manager.
- 6.7 All whistleblowing issues raised will be logged centrally by Veritau. The Managing Director, Strategic HR Manager, Section 151 Officer, and the Monitoring Officer will be notified of relevant whistleblowing issues. Numbers of whistleblowing concerns raised and significant trends will also be reported annually to the Governance Committee.

## **7 HOW MATTERS CAN BE TAKEN FURTHER**

- 7.1 This policy aims to provide workers with the means to raise concerns within the Council. If workers have reported an issue in accordance with the policy, but are not satisfied that it has been addressed then they may contact the following prescribed bodies:
  - the Council's External Auditor – Mazars<sup>4</sup>
  - the NSPCC or Ofsted (for concerns about children at risk of abuse)<sup>5</sup>
  - relevant professional bodies or regulatory organisations<sup>6</sup>, for example, the Information Commissioner's Office, Care and Quality Commission (CQC), and the Health and Safety Executive.

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<sup>4</sup> Mazars act as the council's external auditor (see [www.mazars.co.uk](http://www.mazars.co.uk) for further details).

<sup>5</sup> The NSPCC and Ofsted offer dedicated national whistleblowing hotlines (see [www.nspcc.org.uk](http://www.nspcc.org.uk) and [www.gov.uk/government/organisations/ofsted](http://www.gov.uk/government/organisations/ofsted) for further details).

<sup>6</sup> The Department for Business, Innovations and Skills maintains a list of prescribed persons and organisations who may be contacted, [www.gov.uk/government/publications/blowing-the-whistle-list-of-prescribed-people-and-bodies--2/whistleblowing-list-of-prescribed-people-and-bodies](http://www.gov.uk/government/publications/blowing-the-whistle-list-of-prescribed-people-and-bodies--2/whistleblowing-list-of-prescribed-people-and-bodies).

- 7.2 Disclosure of issues to a non-prescribed body (such as a newspaper or through social media) does not provide whistleblowers with protection under PIDA. Workers who are considering making a disclosure, other than to the prescribed bodies, should obtain specialist legal advice before doing so.

## **8 INDEPENDENT ADVICE**

- 8.1 Free confidential advice on how to raise a concern about malpractice at work can be sought from the independent charity PROTECT. They can be found at [www.protect-advice.org.uk](http://www.protect-advice.org.uk), or contacted by email at [info@protect-advice.org.uk](mailto:info@protect-advice.org.uk). The charity's lawyers can give free confidential advice about how to raise a concern about serious malpractice at work.

## **9 DATA PROTECTION**

- 9.1 When managing whistleblowing reports, the Council processes personal data collected in accordance with its information governance policies. Data collected following receipt of a whistleblowing concern is held securely. It is only accessed or disclosed to individuals as necessary to manage, investigate, or take action in relation to the concern raised.

## **10 REVIEW OF THE POLICY**

- 10.1 This policy will be reviewed at least every three years or when any significant changes to whistleblowing legislation, guidance, case law or any other relevant consideration occurs.





# Managers' Guidance on Whistleblowing

## **1 Introduction**

- 1.1 The Council's whistleblowing policy aims to encourage employees, workers, and contractors<sup>7</sup> to raise concerns about activities in the workplace. It contains further information about what whistleblowing is and should be read alongside this guidance.
- 1.2 All managers are expected to take concerns raised by workers seriously and to follow the process set out in this guidance. Further training on whistleblowing is available through Talent Management.

## **2 What is a whistleblowing complaint?**

- 2.1 Managers need to consider any concern raised by a worker about working practices or malpractice, to assess whether it is a whistleblowing issue.
- 2.2 The concern does not have to be raised in writing. Issues raised verbally should be treated as seriously as those raised in writing. You should carefully document anything raised verbally with you.
- 2.3 It is not necessary for the term "whistleblowing" or "protected disclosure" to be used for an issue to be considered whistleblowing. Any concern that falls under the types of issues covered by the policy (see paragraph 2.7 of the main policy) may be a whistleblowing issue. The range of issues that could qualify is very broad and could include problems that may not initially appear very serious. For example, relatively minor breaches of health and safety processes or issues concerning a breach of contract. Care must therefore be taken to assess any issue raised with you, to consider whether it is whistleblowing.
- 2.4 Whistleblowing will generally be about issues that relate to more people than the individual who raised it. If it is clear that a concern relates only to an individual worker, then it should be considered under another of the Council's policies. However, care is needed when deciding this. For example, a report of bullying could just be about one worker. However, it could also reflect a culture of bullying and harassment in a service area. In this case the concern may be whistleblowing.
- 2.5 Whistleblowing reports can only come from people who work for the Council (including contractors). Further detail about who can report a concern is set out in paragraphs 2.2 and 2.3 of the policy. Concerns raised by members of the public or other groups would not be considered as whistleblowing. They should still be taken seriously though and directed to

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<sup>7</sup> Throughout the rest of the guidance, the terms worker, or workers is used to mean anyone covered by the whistleblowing policy and the protections of PIDA.

- the relevant team. For example, the Council's Business Support Team or the counter fraud team.
- 2.6 Whistleblowing reports are often made anonymously. Where an anonymous report is made, you should try to encourage (but not pressure) the person to give their name. For example, if you are taking information by phone or have an email address you can respond to. Make it clear that it can be more difficult to investigate concerns if contact with the whistleblower is not maintained.
  - 2.7 Concerns or complaints about councillors are not covered by the whistleblowing policy. They would come under the Council's Code of Conduct for Elected Members. Any complaints relating to councillors should be made in writing to the Monitoring Officer<sup>8</sup>.
  - 2.8 If you are not sure whether an issue should be classed as whistleblowing then advice can be sought from Veritau<sup>9</sup>.

### **3 Reporting the receipt of a whistleblowing concern**

- 3.1 Section 6 of the policy sets out what managers should do when they receive a whistleblowing concern. Managers should also notify their assistant director (or the head teacher/chair of governors, for schools). They should also inform the Strategic HR Manager.
- 3.2 If the issue involves any of the people named above then you should tell a more senior officer such as the Managing Director, CFO / s151 officer, the Head of Internal Audit or the assistant director for education (in the case of schools).
- 3.3 Veritau maintains a central log of all whistleblowing reports received. Where a whistleblowing issue is handled within a service area or directorate, the outcome of any investigation and action taken should be reported to Veritau once the matter is completed.
- 3.4 If you are unsure about how to deal with a whistleblowing issue then you can seek advice from Veritau. Any complex issues, or any case involving fraud, corruption or theft should be reported to Veritau immediately. Veritau will determine how the issue should be investigated, in consultation with other relevant officers.

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<sup>8</sup> Details on the Code of Conduct for Elected Members, and how to raise a complaint are available at <https://www.redcar-cleveland.gov.uk/about-the-council/comments-and-complaints-procedure/complain-about-a-councillor>

<sup>9</sup> Veritau can be contacted by email on [whistleblowing@veritau.co.uk](mailto:whistleblowing@veritau.co.uk)

- 3.5 If you receive details of a whistleblowing concern raised with an external body (one of the prescribed persons and organisations set out in section 7 of the policy), the information should be forwarded to Veritau.

#### **4 Initial response**

- 4.1 If you are notified of a concern, you should acknowledge it immediately. Unless it was raised anonymously (with no reply address) then this should usually be done by email. If you are notified verbally, you should try to find out as much information as possible and document it. Try to obtain contact details if possible. Where information is received in writing you should usually try to arrange a meeting with the whistleblower to gather further information.
- 4.2 This initial meeting can be done in person, in or outside of the Council's offices, or by telephone. It is important to find an environment that the whistleblower feels comfortable with. They may be supported by a trade union representative or work colleague. A note taker can be brought to the meeting with prior agreement from the whistleblower.
- 4.3 If anonymity is requested then every effort should be made to keep the whistleblower's identity concealed. However, anonymity cannot be guaranteed and you should not promise this. If it becomes apparent that a whistleblower's identity may become known, then they should be told about this as soon as possible.
- 4.4 All information relating to a whistleblowing report or gathered during a subsequent investigation should be kept confidential. Information should only be shared on a strictly need to know basis.
- 4.5 A record of any meetings with the whistleblower should be made either contemporaneously or as soon as possible afterwards. These notes must be kept securely.
- 4.6 No commitments should be made about the process or outcome of a whistleblowing investigation. However, the whistleblower should be reassured that their concerns will be taken seriously.
- 4.7 Any additional information you obtain should be shared with the people you have already notified (paragraphs 3.1 and 3.2 above) or with Veritau, if the issue is to be referred to them.

#### **5 Conducting an investigation**

- 5.1 At the start of an investigation, the person looking into the issue should inform the whistleblower that they are investigating the matter.

- 5.2 Updates should be provided to the whistleblower during the investigation if this is possible. However, only appropriate information can be shared. Personal data about other people must not be shared. Nor can any information that may prejudice the investigation. In some cases, it may be better to wait until the end of the investigation before sharing any details (although personal data cannot be shared at any point).
- 5.3 Notes should be made throughout the investigation about the action being taken and evidence collected. Conclusions should also be documented.
- 5.4 The investigator should consider whether any action to be taken during the investigation is likely to lead to the identity of the whistleblower becoming known. If it becomes apparent that the investigation cannot be pursued without the whistleblower's identity becoming known, then they should be made aware of this before further action is taken. The whistleblower's name should only be made known to other people on a need-to-know basis.
- 5.5 Investigations should be completed as quickly as possible. Where a whistleblowing investigation leads to other Council processes being considered or commencing (such as a pre-disciplinary investigation) then relevant officers should be made aware at an early stage.
- 5.6 At the conclusion of an investigation a report should be prepared setting out all of the evidence gathered and stating whether it confirms or contradicts the original issue raised. It should also set out the conclusions reached, and recommendations. The report should be shared with those notified of the issue originally (paragraphs 3.1 and 3.2 above). A copy should also be sent to Veritau.

## **6 Special circumstances**

### Safeguarding concerns

- 6.1 If a concern raised includes issues relating to safeguarding, then the manager notified should ensure that it is raised immediately through normal Council safeguarding arrangements.

### Anonymous concerns

- 6.2 If a concern has been made anonymously then it must still be treated as credible and dealt with through the procedure detailed in this guidance.

### Negative treatment of the whistleblower

- 6.3 The Council will not tolerate any negative treatment of whistleblowers. If any manager becomes aware of any mistreatment of a whistleblower, they should report this to the Strategic HR Manager as soon as possible. The

Council may be in contravention of whistleblowing legislation if action is not taken to address this behaviour.

#### Vexatious or malicious reports

- 6.4 If a whistleblower acts in bad faith or raises malicious, vexatious, or knowingly untrue concerns then they may be subject to disciplinary action. If you have reasonable grounds to suspect that this may be the case, then the matter should be reported to the Strategic HR Manager.

#### External disclosures

- 6.5 It is important to be supportive and encouraging to those raising a concern. However, if a worker indicates that they are considering taking their concerns outside of the Council, for example to the media or social networking sites, you should advise them of the following:
- You will not be able to support them if they take this action
  - Their disclosure may not be covered by the whistleblowing policy and relevant legislation
  - Their action may represent an unauthorised disclosure
  - They could jeopardise any legal protection that they may have in law
  - They could be subject to disciplinary action themselves.
- 6.6 If a whistleblower makes an external disclosure, then this should be reported to Veritau as soon as possible. Some types of disclosure are covered by legislation. However, consideration of whether the action taken is appropriate or not will need to be considered on a case by case basis.

#### Support

- 6.7 If you have any queries or issues about whistleblowing then you can seek further advice from Veritau.



## **Member Report**

**Report to: Governance Committee**

**Report from: Director of Finance - Section 151 Officer**

**Portfolio: Resources**

**Report Date: 06 February 2023**

**Decision Type: Information Only**

**Forward Plan Reference: N/A**

**Council Priority: Investing in the Long Term**

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### **HEADLINE POSITION**

#### **1.0 Summary of report**

- 1.1** The Council must produce a capital and treasury strategy which considers the management of the Council's cash flows, borrowing and investments, and the associated risks of these decisions, particularly within the context of the Council's capital programme.

#### **2.0 Recommendation**

It is recommended that Governance Committee consider and comment on the following documents, which will be forwarded for subsequent approval by Borough Council as part of the budget setting report on 23 February 2023:

- The Capital and Investment Strategy Report for 2023/24 – Appendix A;
- The Annual Treasury Management Strategy for 2023/24 – Appendix B;
- The Annual Investment Strategy for 2023/24 – Appendix C;
- The policy statement on the Minimum Revenue Provision for 2023/24 – Appendix D;
- The Authorised Limit for external debt, in line with the Local Government Act 2003 requirements. For 2023/24 this limit has been set at £302.162 million (compared to £298.193 million requested for approval in February 2022 for 2022/23) as per Appendix A – Table 7.

Any comments or specific issues will then be reflected in the attached documents or summarised for Cabinet and Council to further consider prior to approval.

### **DETAILED PROPOSALS**

#### **3.0 What are the objectives of the report and how do they link to the Council's priorities**

- 3.1** As part of the Council's financial procedures, Governance Committee is responsible for the scrutiny of the Council's Capital and Treasury strategies; assessing the performance and risk management of the Treasury Management function. This function supports the Council to meet a wide range of corporate priorities and particularly to invest in the long-term. Overall responsibility for the

management and monitoring of the Treasury Management performance and policies lies with Full Council (which also notes comments and recommendations made by Governance Committee and where applicable the Resources Scrutiny Committee).

#### **4.0 What options have been considered**

**4.1** The Council's Capital and Treasury Strategy follows the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA's) **Prudential and Treasury Management Code (the Code)**. The Capital and Treasury Strategy provides a high-level overview of how capital expenditure (the investment in the Council's assets), capital financing and treasury management activity are inter-linked. The Strategy also provides an overview of how risks are managed and the financial impact on the Council's long-term financial sustainability of this Strategy.

**4.2** Within the context of Treasury Management, CIPFA have defined investments to include both monetary investments and non-financial assets, which the Council holds primarily to generate a financial return (including investment properties), loans to third party organisations and shares in companies. CIPFA have over recent years highlighted the risks of local authorities increasingly diversifying into wider commercial activities to address revenue budget shortfalls through the generation of additional investment income which can fund core services, and where there is a need to borrow to fund these types of activities, significantly increasing the risk of loss of capital investment and additional capital financing costs.

**4.3** The Government have in recent years tightened up on the ability of local authorities to borrow from the Government to invest capital expenditure in investment assets (investment properties, shares and loans to third parties) with the primary purpose of generating a revenue yield. In particular local, local authorities are not able to borrow to fund their capital programme, where aspects of this programme involve investing in debt-for-yield activities.

**4.4** The Capital & Treasury Strategy sets out the basis of which the Council takes capital expenditure & investment decisions, how these decisions are aligned to service objectives and how the Council achieves the objectives of:

- managing risk of capital loss,
- maintaining liquidity,
- maximising income yield.

**4.5** The Strategy is split into the following components:

- How the capital programme is funded (a combination of grants, capital receipts, borrowing and direct revenue funding);
- Treasury Management arrangements for investing surplus funds and borrowing to fund capital expenditure;
- Other types of investment and long-term liabilities held by the Council;
- Knowledge and skills of staff, elected and independent members;
- Prudential Indicators to monitor performance, risks and success;
- Minimum Revenue Provision policy: which sets out how much revenue budget the Council sets aside to re-pay debt linked to the financing of



previous years historic capital expenditure in the Borough.

## **4.6 Capital Expenditure and Financing**

The Council has an extensive and wide-ranging capital programme which relates to what the Council spends to invest in long-term assets and infrastructure (such as property, equipment, vehicles roads and other infrastructure owned by the Council). The Council funds this expenditure through various sources, which have long-term financial implications. Unlike day-to-day revenue budgets, the Council is permitted to borrow to finance the capital programme providing the Council does not invest in purely debt-for-yield activities. Councils have to closely monitor their debt levels, how much it costs to repay debt (interest, borrowing and other borrowing costs) and the period over which this debt is repaid. The Council's internal officer-led control and monitoring group – Programme Management Group – ensures individual capital schemes are supported by a robust business case and are effectively & efficiently delivered as planned.

- 4.7** The Council must ensure the capital programme is prudent and affordable. Where elements of the Capital Plan are funded by borrowing (either externally or internally), the Council must set aside budgetary allocations in the revenue budget to repay this debt. These budgets include the interest payable to lenders on external borrowing; and the setting aside of funds to re-pay the principal element of debt (known as the Minimum Revenue Provision).
- 4.8** The Council also needs to split out elements of the budgets set aside for lease payments and Private Finance Initiative (PFI) schemes to account for the notional costs of borrowing and the amount set aside to repay the debt associated with the purchased assets linked to these financing arrangements.
- 4.9** The Council has total outstanding debt of £245.565 million (including PFI and Lease liabilities) at 31 December 2022, and the forecast year-end position is £240.877 million at 31 March 2023. The forecast fall debt for the remainder of 2022/23 relates to the planned repayment of borrowing before the end of the current financial year.
- 4.10** The forecast overall total long term external debt at the end of 2022/23 of £240.877 million must be compared with the estimated Capital Financing Requirement (the defined underlying financial value which the Council needs to borrow to fund capital activities) of £267.466 million. The Council therefore has a forecast under-borrowed position of £26.589 million, which provides some recurring savings in interest payments.
- 4.11** The Council holds revenue budgets for repaying debt (known as Capital Financing Costs). The repayment of debt will cost the Council £21.169 million in 2022/23 (18% of the net revenue budget for 2022/23). In addition, in the 2023/24 budget, the forecast capital financing costs will rise to £23.169 million (which will represent 18% of the planned net revenue budget for 2023/24 due to rising interest rate costs on new debt taken out since 2022/23). The table below breaks down these costs. The table also includes other costs associated with capital financing costs including the premium costs of refinancing loans in previous years and brokerage fees incurred when negotiating new financing with other local authorities. The capital financing costs of the debt are distinguished between debt arising from the

capital programme and debt payable on other long-term liabilities (such as leases and Private Finance Initiative schemes).

<b>Capital Financing Costs</b>	<b>2022/23 Forecast £'m</b>	<b>2023/24 Forecast £'m</b>
<b>Capital Programme</b>		
Principal	4.381	4.694
Interest	7.585	8.651
<b>Total Capital Financing Costs linked to the Capital Programme</b>	<b>11.966</b>	<b>13.345</b>
<b>Long Term Liabilities (i.e. leases and PFI arrangements)</b>		
Principal	1.551	1.624
Interest	7.122	7.666
<b>Total Capital Financing costs linked to Long Term Liabilities</b>	<b>8.673</b>	<b>9.290</b>
<b>Capital Financing costs link to all debt</b>		
Principal	<b>5.962</b>	<b>6.318</b>
Interest	<b>14.707</b>	<b>16.317</b>
<b>Gross Principal and Interest Costs</b>	<b>20.639</b>	<b>22.635</b>
Add LOBO refinancing premium costs	505	499
Add Brokerage Fees	25	35
<b>Total Capital Financing Costs</b>	<b>21.169</b>	<b>23.169</b>

#### **4.12 Treasury Management – Managing our cash flows and investing surplus cash balances**

The Council generates income on the investment of surplus cash balances from investments in fixed term deposits and other financial instruments, which is expected to generate around £0.380 million in 2022/23. This level of investment income received has increased since the end of 2021/22 due to rapidly rising interest rates during 2022 from near zero levels in late 2021.

**4.13** The primary aim when investing surplus cash balances is to achieve a balance between management of risk of loss of investments and the income return they generate. The Council must primarily minimise the risk of losses from default, ensure liquidity to fund operational activities, whilst seeking to generate an investment yield. The investment of cash balances seeks to diversify surplus cash balances with counterparty institutions which hold a strong credit rating of A- and above.

**4.14** The Council also holds a long-term investment in the Church, Charity and Local Authority (CCLA) Property Fund. The original investment of £10.000 m was made in two instalments in 2018/19. The investment generates a yield of around £0.350 million per annum.

**4.15** The Council uses its general investment powers under the Local Government Act 2003 to make loans to its subsidiaries and other businesses. By 31 March 2023, these are forecast to include:

- a loan of £1.300 million to Redcar and Cleveland Legal Services Ltd for the purchase and acquisition of Cygnet Family Law Ltd;
- a loan of £0.143 million to Sports Leisure Management (SLM) to fund the cyclical replacement of leisure assets.

**4.16** The Council will generate c. £0.088 million on interest on loans to third parties in 2022/23.

#### **4.17 Management of the Council's Borrowing**

The Council continues to seek to achieve a low but fairly certain cost of finance, whilst retaining flexibility to borrow for short term periods and to respond to demands of the capital investment programme. The Council had previously sought to achieve a balance between taking advantage of low rates of interest for short term borrowing (predominantly from other local authorities) versus the need to create certainty over rates of borrowing in the long term (primarily from the Public Works Loan Board (PWLB) and private banks). However, during 2022/23, the Council has shifted its strategy in anticipation of rising interest rates, and therefore long in a greater proportion of debt into longer-term deals.

**4.18** The Council still holds £25.000 million in Lender Option Borrower Option (LOBO) debt which the Council will seek to refinance if there is an option to do so, providing the refinancing generates a net revenue budget saving and the lender has the appetite to do this. The refinancing of this debt attracts significant premiums to redeem, however these premiums can be spread across the life of the remainder of the life of the refinanced loan.

#### **4.19 Other Investments and Long-Term Liabilities:**

The Capital and Treasury Strategy also assesses the risks and financial impact of the Council's non-treasury investments. The Capital and Treasury Strategy discloses the current non-treasury investments in place, as well as the approved parameters to grant loans to third parties, create investment properties, engage in other commercial activity and commit to additional long-term liabilities. In recent years the Government has sought to limit local authorities in their ability to purchase yield-generating non-treasury investment assets through the placing of restrictions on those local authorities being able to borrow from the PWLB to fund any aspect of their wider capital programme.

**4.20** The current portfolio of investment properties held by the Council have been in place for a long period of time and were originally invested in with an intention of promoting wider social and economic benefits in the Borough rather than primarily seeking to generate an investment yield.

**4.21** During 2021/22 the Council invested in shares and a long-term loan to a holding company owned by the Council called Redcar and Cleveland Legal Services Limited, in order to fund the acquisition of Cygnet Family Law. The Council expects to receive a budgeted dividend of £0.700 per annum from this investment,

plus interest income on the loan balance to Redcar and Cleveland Legal Services Limited.

**4.22** As with treasury investments, the Council seeks to ensure that security, liquidity and yield are considered prior to the actual non-treasury investment being made. A detailed risk and reward assessment is made prior to the investment.

#### **4.23 Knowledge & Skills**

The Capital and Treasury Strategies provide details of the knowledge and experience held by Officers and Members, and the access it receives to external advice and guidance. Council officers have a broad range of skills to ensure treasury management decisions are informed and risk-assessed on a consistent basis. The Council use external consultants including Arlingclose to provide up to date and specialist advice which is bespoke for local government sector regulations, particularly focusing on risks and opportunities.

#### **4.24 Prudential Indicators**

As part of the Code, the Council are required to set and monitor a series of prudential indicators as part of the Capital and Treasury Management Strategies. These indicators are set before the start of the new financial year, can be revised during the start of the financial year and are reported as part of wider financial management reporting during the year. The prudential indicators follow best practice and seek to ensure that the Treasury Management activities of the Council are transparent, affordable and sustainable. These indicators are described and set out in Appendix A.

#### **4.25 Minimum Revenue Provision**

The Council is required to maintain a policy for the repayment of debt incurred over previous years. The policy is split into different elements which are influenced by when the borrowing was originally incurred, the type of assets and the useful economic life of the assets the borrowing is funding. No changes are proposed to the MRP policy for 2023/24. This policy is set out in Appendix D.

### **5.0 Impact Assessment**

**5.1 Climate Emergency** – The strategies and policies linked to this report, fund capital expenditure activity which contribute towards the Council's climate change agenda.

**5.2 Health and Safety** – None

**5.3 Social Value** – The Strategy refers to the Council's aims of ensuring it does not directly or inadvertently invest in unethical types of investment.

**5.4 Legal** – The Council must comply with the Local Government Act 2003, which requires an annual strategy to be approved which follows the principles of the CIPFA Treasury Code of Practice and the Prudential Code on Capital

Finance. Since 2008, the Council has followed updated legislation to ensure an adequate and prudent revenue budget is set aside to cover the capital financing costs associated with repaying debt, in particular to set a policy for Minimum Revenue Provision. The Council will be asked to approve the Authorised Limit for external debt for 2023/24, which is a statutory limit determined under Section 3(1) of the Local Government Act 2003. This requirement means the Council must determine and keep under ongoing review, the level of debt which can be held during the financial year.

**5.5 Financial** – The Capital and Treasury Strategy is a high-level overview covering the interactions between capital expenditure, financing of the capital plan, investment of surplus cash balances, other long term liabilities, knowledge & skills and prudential indicators. This Strategy is a key part of how the Council manages its available resources and includes details on the stewardship, value for money, prudence, sustainability and affordability. The Strategy is a crucial component of the wider Medium Term Financial Strategy of the Council.

**5.6 Human Resources** – None

## **6.0 Implementation Plan**

**6.1 Timetable for Implementing Decision:** Upon receiving the comments and views of Governance Committee, the Capital & Treasury Strategy will be included as an Annex to the Council's Medium Term Financial Strategy Report which will be reported to Full Council on 23 February 2023. Cabinet will receive updates on the Capital and Treasury Strategy as part of quarterly financial performance monitoring during 2023/24.

**6.2 Lead Officer:** Phil Winstanley – Assistant Director – Finance (Section 151 Officer)

**6.3 Reporting Progress** – Cabinet will receive updates on the Capital and Treasury Strategy as part of quarterly financial performance monitoring during 2023/24. The Council is due to report to Governance Committee in July 2023 on the 2022/23 Draft Financial Accounts, in which detailed information will be provided on the Council's Treasury Management and Borrowing arrangements through the publication of detailed disclosure notes on financial instruments held by the Council.

**6.4 Communications Plan** – As above, plus the Council is required to publish its detailed statement of financial accounts, medium term financial strategy and quarterly financial performance reports online.

## **7.0 Consultation and Engagement**

The Council has referred to the Capital & Treasury Strategy model format supplied by Arlingclose. The Council has held discussions with Arlingclose to ensure the Strategy is robust, transparent and reliable.

## **8.0 Appendices and Background Papers**

Appendix A – Capital Strategy for 2023/24 – which provides the strategic overview on how capital expenditure, financing and treasury management underpin the Council’s local services.

Appendix B – Annual Treasury Management Strategy for 2023/24 – which sets out the strategy for borrowing and treasury investments.

Appendix C – Annual Investment Strategy for 2023/24 - which summarises the investment strategy for all investments, including treasury, commercial and loans granted to other organisations.

Appendix D – Policy on Minimum Revenue Provision for 2023/24.

## **9.0 Contact Officer**

**9.1 Name: Phil Winstanley**

**9.2 Position: Assistant Director – Finance (Section 151 Officer)**

**9.3 Email address: Philip.winstanley@redcar-cleveland.gov.uk**

**9.4 Telephone Number**

**REDCAR & CLEVELAND BOROUGH COUNCIL**  
**CAPITAL AND INVESTMENT STRATEGY REPORT 2023/24**

## INTRODUCTION

The Capital Strategy provides a high-level overview of how capital expenditure, capital financing and treasury management underpin the provision of local services in Redcar & Cleveland. The Strategy also provides an overview of how any associated risk is managed and the implications for future financial sustainability.

Decisions made on capital and treasury management will have financial consequences for the Council for many years in the future. They are therefore subject to both a national regulatory framework and to a local policy framework, summarised in this report.

The areas covered in the strategy are as follows:

- Capital expenditure.
- Borrowing (including comparison with capital financing requirement and liability benchmark).
- Private Finance Initiatives (PFI) and leasing liabilities.
- Minimum revenue provision.
- Investments (treasury).
- Investments (service and commercial).
- Guarantees and loan commitments.
- Knowledge and skills.

## CAPITAL EXPENDITURE AND FINANCING

Capital expenditure is incurred where the Council spends money on non-current assets such as:

- property,
- plant,
- equipment,
- vehicles,
- infrastructure,
- intangible assets,
- loans to third parties, and
- shareholdings.

These assets will be used (or will exist) for more than one year. In local government, capital expenditure also includes spending on assets owned by other organisations; and loans and grants to other bodies enabling them to buy assets.

The Council applies a de-minimus level for the recognition of expenditure on the acquisition, creation, or enhancement of capital assets.

The Council has an approved six-year Capital Investment Programme covering the medium-term until financial year 2027/28. An extract of this is summarised in the table below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure and Financing

	2021/22 Actual * £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	Total Budget 2022-26 £m
General Fund Services	28.342	35.898	43.420	23.766	14.447	117.531
Capital Investments	3.117	0.126	0.000	0.000	0.000	0.126
<b>Total</b>	<b>31.459</b>	<b>36.024</b>	<b>43.420</b>	<b>23.766</b>	<b>14.447</b>	<b>117.657</b>
Capital Receipts	0.681	- 0.547	- 0.250	- 0.250	- 0.250	-1.297
Prudential Borrowing	8.507	- 7.711	- 16.014	- 7.004	- 6.929	-37.658
Direct Revenue Financing	0.158	- 0.622	- 0.127	- 0.222	- 0.456	-1.427
Grants	22.113	- 27.144	- 27.029	- 16.290	- 6.812	-77.275
<b>Total</b>	<b>31.459</b>	<b>- 36.024</b>	<b>- 43.420</b>	<b>- 23.766</b>	<b>- 14.447</b>	<b>-117.657</b>

\*2021/22 figures shown for information only and are not included in the Total Budget.

Capital expenditure for future years may increase due to updates to the Capital Investment Programme and a change in the accounting policy for leases and the Private Finance Initiative which is anticipated in 2024/25 (which will result in additional expenditure being capitalised as the associated assets and liabilities are brought on balance sheet).

All capital expenditure will be financed from external sources (government grants and other contributions), the Council's own resources (revenue contributions, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiatives).

Debt is a temporary source of finance which must ultimately be repaid or re-financed, and this repayment is mainly funded over time by setting aside revenue expenditure known as the Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. The Council however only uses capital receipts to finance new debt. The Council's full MRP statement is set out in APPENDIX D, and the planned level of MRP charged to the Council's Revenue Budget and the projected use of capital receipts are summarised as follows:

Table 2: Replacement of prior years' debt finance

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Capital resources	0	0	0	0	0
Revenue resources (MRP)	5.809	5.932	6.318	6.900	7.503
<b>TOTAL</b>	<b>5.809</b>	<b>5.932</b>	<b>6.318</b>	<b>6.900</b>	<b>7.503</b>

A key objective of the Capital Investment Programme is to boost economic growth across the Borough. The Programme has close synergies to the strategic objectives of the Tees Valley Combined Authority and the South Tees Development Corporation.

The Capital Investment Programme is managed on a rolling medium-term basis. There are key elements to the Programme that were agreed by Council, which contained an on-going rolling programme of investments in the Council's infrastructure alongside a range of one-off investments to stimulate sustainable growth.

The key elements of the Capital Investment Programme include:

- Significant investment in our towns will take place, including through the Redcar Town Fund and Loftus Future High Streets Fund.
- Our cultural and visitor offer will be improved through schemes like Guisborough town hall, new swimming baths in Eston, and Cleveland ironstone mining museum.
- Investment is also planned to support business growth, with our industrial estates programme creating the infrastructure needed.



- Investment has been made in supporting our children in care through our no-wrong door approach, moving on accommodation and the refurbishment of the Ridings.
- Further investment in our school estate is planned, expanding existing school provision, and creating new provision, to meet the educational needs of our young people
- The infrastructure requirements for service delivery including upgrading our IT, assets and fleet are provided for.
- On-going investment is also planned in the borough's transport infrastructure, including the road network and repair and maintenance of highways assets.
- In meeting residents' needs there is on-going investment in disabled facilities and adaptations to allow people to live more independently in their own homes.
- On-going investment in the planned maintenance of our buildings includes provision to make them more energy efficient as we undertake these works.

The Council is required to measure the cumulative amount of debt finance through an indicator known as the Capital Financing Requirement (CFR). This is revised on an annual basis when new debt-financed capital expenditure is incurred; and reduces with annual contributions from MRP (which are funded by the Council's revenue budget) and capital receipts. The CFR is expected to increase during 2023/24 to reflect the Council's capital plans. Based on the Capital Investment Programme for expenditure and financing, the Council's estimated CFR is as follows:

**Table 3: Prudential Indicator: Estimates of Capital Financing Requirement**

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
CFR - General Fund	205.047	208.377	219.697	221.501	222.706
CFR - PFI/leases	60.640	59.089	57.465	55.765	53.985
<b>Total CFR for Year</b>	<b>265.687</b>	<b>267.466</b>	<b>277.162</b>	<b>277.265</b>	<b>276.691</b>
<b>Net Movement in CFR</b>	<b>2.545</b>	<b>1.779</b>	<b>9.696</b>	<b>0.104</b>	<b>-0.574</b>
Represented By:					
Borrowing Requirement	8.507	7.711	16.014	7.004	6.928
MRP	-4.377	-4.381	-4.694	-5.200	-5.723
MRP - PFI/Leases	-1.432	-1.551	-1.624	-1.700	-1.780
Capital Receipts - Loans & MRP	-0.153	0.000	0.000	0.000	0.000
<b>Total</b>	<b>2.545</b>	<b>1.779</b>	<b>9.696</b>	<b>0.104</b>	<b>-0.574</b>

In accordance with best practice the Council does not earmark borrowing to specific items or types of expenditure. The Council manages its overall borrowings and investments in accordance with its approved Annual Treasury Management Strategy (APPENDIX B).

For the purposes of day-to-day cash management, no distinction is made between revenue and capital cash. External borrowing arises as a consequence of all financial transactions of the Council as a whole and not simply those arising from capital spending. In contrast the CFR indicator reflects the Council's underlying need to borrow to fund capital expenditure.

## Governance

The ten distinct clusters of the Capital Investment Programme are monitored by the Programme Management Group.

This group ensures that once the supporting strategy for the Capital Investment Programme has been agreed by the Executive Management Team, Cabinet and Council, a fit for purpose business case is produced and delivered accordingly for individual projects.

The Capital Investment Programme is made up of a series of theme-based projects which meet the key criteria of the investment strategy of the Council and have been scrutinised using an outline or full business case. For capital projects which exceed £0.250 million, a full business case will be required to be completed before a project moves into its procurement phase. Project investments

which have a variation in excess of £0.250 million of the original estimated value of the cost of the project will require further approval by the Cabinet to proceed.

The Business Case process is structured around the Treasury Green Book Model which uses 5 types of tests:

- Strategic case.
- Economic case.
- Finance case.
- Management case.
- Commercial case.

On a quarterly basis, Cabinet will receive a report which sets out the Council's Capital Investment Programme, an update on the progress during the year and variations to the programme.

As part of the recent Corporate Peer Challenge, one of the findings was that the Council is recommended to further embed its approach to developing the pipeline of capital schemes, to ensure that all additions are evidence-based, and fully appraised of the debt-financing and subsequent operational running costs. To address this recommendation, the Council will develop an economic statement which will help to ensure that any economic project added to the Council's capital pipeline will be evidence-led with investment decisions made on clear criteria. The criteria will ensure that capital projects align to the Corporate Plan Objectives such as carbon reduction, digitisation and more efficient use of assets.

### **Asset Management**

To ensure that the Council's capital assets continue to be of long-term use, it is important that the Council has a robust Asset Management Strategy in place. This is reviewed regularly by the Asset Strategy Group. The Strategy's key objectives are:

- To take a place-based approach to asset management, creating complementary multi-use public facilities within neighbourhoods.
- To work with key partners, the local community and the voluntary and community sector to generate social value by exploring opportunities for co-location or community asset transfer.
- To regenerate and positively shape places through an intelligent approach to the acquisition, consolidation, disposal and development of land and buildings.
- To reduce carbon emissions from the Council's asset portfolio, supporting the aspiration to become a carbon neutral borough by 2030.
- To facilitate modern, flexible ways of working by maximising the opportunities for digital working across the Council's estate.
- To reduce the costs of the Council's estate through a rationalisation of the overall number of land and buildings.
- To act commercially developing further income streams which help to offset the cost of operating the Council's estate.
- To ensure that the Council's assets are well maintained reducing the costs associated with any unplanned repair or maintenance work.

The Cabinet member for Corporate Resources has the overall responsibility for the Council's land and property assets. As the Corporate Landlord, the Managing Director is the owner of the Asset Strategy. The Corporate Landlord has the responsibility to ensure that a corporate approach is adopted in the management of the Council's land and property assets ensuring that their use is maximised, their operational costs are minimised and that they provide value for money in the delivery of services.

### **Asset Disposals**

When a capital asset is no longer needed, the Council will seek to dispose of the asset for capital receipts. These capital receipts can be utilised as follows:

- To fund capital expenditure.
- To repay the principal of debt held by the Council.

Repayment of capital grants, loans and investments by other organisations to the Council, also generate capital receipts. The capital receipts generated and forecast over the medium term are as follows:

**Table 4 – Capital Receipts**

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Asset Sales	- 0.432	- 0.550	- 1.000	- 0.250	- 0.250
Loans Repaid	- 0.153	- 0.199	- 0.205	- 0.131	- 0.396
<b>TOTAL</b>	<b>- 0.585</b>	<b>- 0.749</b>	<b>- 1.205</b>	<b>- 0.381</b>	<b>- 0.646</b>

The Council’s policy for the utilisation of capital receipts is to primarily fund the purchase of short-life assets within the Capital Investment Programme.

## **TREASURY MANAGEMENT**

The Council defines the policies and objectives of its treasury management activities as follows:

1. Treasury management is the management of the Council’s cash flows, borrowing and investments, and the associated risks.
2. The successful identification, monitoring and control of risk will be the prime criteria by which the effectiveness of the treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council and any financial instruments entered into to manage these risks.
3. Effective treasury management will provide support towards the achievement of the business and service objectives of the Council expressed in the Corporate Plan. The Council is committed to the principles of achieving value for money in treasury management and to employing suitable performance management techniques within the context of effective risk management.

The Council has also set out the policies and monitoring arrangements for borrowing and investments.

Investments held for service purposes or for commercial profit are considered in APPENDIX C - Investment Strategy.

### **Borrowing Strategy**

The Council’s main objective when borrowing money is to achieve a low but relatively certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

The Council does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loan Board.

Projected levels of the Council’s total outstanding debt (which comprises borrowing and PFI/ lease liabilities) are shown below, compared with the Capital Financing Requirement (see Table 3 -

Prudential Indicator: Estimates of Capital Financing Requirement). This is monitored with long-term projections for input into the liability benchmark.

**Table 5 – Prudential Indicator – Gross Debt and the Capital Financing Requirement**

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Debt - Capital Programme	185.807	196.003	207.616	209.420	210.625
Debt - PFI's	50.329	44.874	44.874	42.363	39.856
Total	236.136	240.877	252.490	251.782	250.481
Capital Financing Requirement	265.687	267.466	277.162	277.265	276.691
Internal Borrowing	- 29.551	- 26.589	- 24.672	- 25.483	- 26.210
Gross Debt and the Capital Financing Requirement (as %)	89%	90%	91%	91%	91%

The Council follows statutory guidance to ensure that debt remains below the Capital Financing Requirement, except for very short periods of time. Table 5 shows that the Council expects to comply in full with this guidance across the whole of the medium term. but may breach this threshold due to the premium incurred in the restructuring of the Lender Option – Borrower Option (LOBO) loans in 2018. The debt to fund this premium is not funding associated with the Capital Investment Programme but is a relevant consideration when comparing the Capital Financing Requirement and the Council's overall level of debt. The premium outstanding on the 31 March 2023 is £14.362 million.

### Liability Benchmark

The liability benchmark effectively represents the projected net borrowing requirement of a local authority over the long-term, plus a liquidity allowance.

In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments the Council require to manage its day-to-day cash flow requirements.

The Council has calculated its liability benchmark, which shows the lowest level of borrowing needed to fund the Council's capital commitments, after the use of the Council's revenue reserves. This assumes that investment balances are kept to a risk-determined minimum level of £10.000 million at each year-end. This benchmark is currently estimated to be £176.454 million on 31 March 2023 and is forecast to rise to £195.206 million by 2025/26.

**Table 6 – Borrowing and the Liability Benchmark**

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Estimated Outstanding borrowing - Capital Programme	185.807	196.003	207.616	209.420	210.625
Liability benchmarking	161.124	176.454	192.197	194.001	195.206

The table shows that the Council expects to remain borrowed above its liability benchmark for the short-term. This is partly because of the borrowing undertaken for the premium on redeeming the LOBO loans and assumptions made on the working balances for the Council.

### Affordable Borrowing Limits

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower operational boundary is also set as a warning indicator should debt approach the limit.

**The Authorised Limit:** This represents the limit beyond which borrowing is prohibited. The Limit is based on the probable Capital Financing Requirement, with some headroom factored in after an assessment of risk. This limit requires amendment in line with the most up to date capital expenditure

plans, which are to be financed through borrowing. The revenue consequences of these plans have been reflected in the Medium-Term Financial Plan.

**The Operational Boundary:** This indicator is based on the probable Capital Financing Requirement during the course of the year. It is not a limit, and the Code recognises that circumstances might arise when the boundary might be exceeded temporarily. It should act as an indicator that ensures the Authorised Limit is not breached.

Table 7 – Limits to Borrowing Activity

	2021-22 Actual	2022-23 Forecast	2023-24 Budget	2024-25 Budget	2025-26 Budget
<b>Authorised Limit for External Debt</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Borrowing	230.047	233.377	244.697	246.501	247.706
Other Long Term Liabilities	60.640	59.089	57.465	55.765	53.985
Total	290.687	292.466	302.162	302.265	301.691
<b>Operational Boundary for External Debt</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Borrowing	205.047	208.377	219.697	221.501	222.706
Other Long Term Liabilities	60.640	59.089	57.465	55.765	53.985
Total	265.687	267.466	277.162	277.265	276.691

Further details on borrowing are included within the Treasury Management Strategy contained in **APPENDIX B**

### **Treasury Investment Strategy**

Treasury investments arise from investing surplus cash for time-limited periods prior to this cash being used to fund operational and capital activities of the Council. Investments made for service reasons or for financial return are not generally considered to be part of treasury management.

The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. Cash that is likely to be spent in the near future is invested securely, for example with Money Market Funds, the Government, other local authorities or selected high-quality banks, to minimise the risk of loss. Longer term funds are invested more widely in pooled funds to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and long-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy.

Table 8 – The Council’s Investment position on 31 December 2022

Investment	Credit Rating	Principal £m's	Rate %	Ave Duration (Days)
<b>Call Accounts</b>				
Natwest	BBB+	- 1.390	0.80	1
Handlesbanken	AA-	- 1.875	2.50	1
Santander	A	-		1
<b>Total Call Accounts</b>		- <b>3.265</b>	<b>1.650</b>	<b>1</b>
<b>Money Market Funds (MMFs)- Ireland unless stated otherwise</b>				
Black Rock	MMF	- 2.350	3.030	1
Federated	MMF	- 3.000	3.070	1
Insight	MMF	-		1
Invesco	MMF	- 3.000	3.080	1
Aviva	MMF	-		1
Aberdeen	MMF	- 3.000	3.120	1
<b>Total Money Market Funds</b>		- <b>11.350</b>	<b>3.075</b>	<b>1</b>
<b>TOTAL INSTANT ACCESS</b>		- <b>14.615</b>	<b>2.787</b>	<b>1</b>
CCLA- Property Fund - Long Term *		- 10.000	3.973	<b>820</b>
DMO		- 6.000	2.540	<b>20</b>
<b>TOTAL FIXED Long term</b>		- <b>16.000</b>	<b>3.257</b>	<b>924</b>
<b>TOTAL</b>		- <b>30.615</b>	<b>3.13</b>	<b>272</b>

\*Estimated duration. Further details on treasury investments are included in APPENDIX B

## Risk Management

The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks. The treasury management prudential indicators are within the Treasury Management Strategy.

## Governance

Decisions on treasury management investments and borrowing are made daily and are therefore delegated to the Director of Finance (Section 151 Officer) and designated employees, who must act in line with the Treasury Management Strategy approved by the Council. Quarterly updates are included with the financial position reports presented to Cabinet. The Governance Committee is responsible for scrutinising treasury management decisions.

## INVESTMENTS FOR SERVICE PURPOSES

The Council can make investments to assist local public services, including making loans to local service providers and local businesses to promote growth. The Council's decision-making processes are different than those with treasury investments, however it will still expect such investments to break even or generate a profit after all costs have been considered. The Council also seeks to ensure that as far as possible the associated risks with such investments are minimised.

Total investments for service purposes are currently valued at £3.230 million with the largest being the shares and loan to Redcar & Cleveland Legal Services LTD, which owns 100% shares in Cygnet Family Law. The budgeted dividend from the investment is estimated to be £0.700 million per annum.

Decisions on any service investments are made by the relevant service managers in consultation with the Director of Finance (Section 151 Officer) and must meet the criteria and limits laid down within both the Investment Strategy and the Capital Investment Programme.

Further details on the Investments Strategy are included in **APPENDIX C**.

## COMMERCIAL ACTIVITIES

The Council currently does not invest in commercial activities. All properties currently classified as investment assets are generally historic or secondary to objectives of the Council. Income generated from these assets is immaterial and any losses can be absorbed in budgets without unmanageable detriment to local services.

The latest value of investment properties is £11.382 million as at 31 March 2022, with the largest being Redcar Community Heart Business Centre. The net income after all costs for investment property was £0.062 million in 2021/22.

## Risk Management

All investment assets are managed by the Strategic Asset Manager along with all other council assets. Their role is to ensure that their use is maximised, their operational costs are minimised and that they provide value for money. When a capital asset is no longer needed, the Council will seek to dispose of the asset to generate a capital receipt. Any loss to investment income will not cause a significant financial pressure.

## Governance

Property and most other commercial investments are also capital expenditure, and any purchases will therefore be subject to approval by the Project Management Group prior to inclusion in the capital programme.

Table 9 – Prudential Indicator – Net Income from Commercial and Service Investments to Net Revenue Stream

	2021-22 Actual £m	2022-23 Forecast £m	2023-24 Budget £m	2024-25 Budget £m	2025-26 Budget £m
Total net income from service and commercial investments	0.146	0.733	0.738	0.743	0.717
Proportion of net revenue stream	0.13%	0.64%	0.58%	0.56%	0.52%

## OTHER CAPITAL STRATEGY ISSUES

### Liabilities

In addition to the debt highlighted in Table 5, the Council is committed to making future payments to cover its pension fund deficit and set aside funds to cover other operational risks. The amounts within the balance sheet at the end of the 2021/22 financial year are as follows:

Table 10 – Other Long-Term Liabilities on 31 March 2022

	31/03/2022 Actual £m
Pension Fund Deficit	160.527
Provision - Bad Debt Provision	2.248
Provision - Collection Fund	10.934
Provision - Insurance	2.300
Provision - Other	0.948
<b>Total</b>	<b>176.957</b>

The Pension Fund deficit represents the net balance of pension fund liabilities (investment assets less liabilities for future pension payments to members of the Teesside Pension Fund). Whilst this pension liability suggests a significant shortfall between the forecast cost of future pensions and the level of assets held in the fund, it should be noted that these are subject to fluctuations in value depending on the current state of stock markets, expectations around the level of inflation and life expectancy of members. The liabilities are also based on cash flows forecast over many decades and would not crystallise at one point in time.

The Council hold other provisions for insurance claims which have been lodged with the Council and provisions for appeals for business rates liabilities may by businesses who are challenging the level of Business Rates on the business premises which they occupy.

Decisions on incurring new material liabilities are taken by Directorates in consultation with the Director of Finance (Section 151 Officer) and the Executive Management Team. The risk of liabilities crystallising and requiring payment is monitored by Financial Services and will be reported within the quarterly finance report to Cabinet and the annual Statement of Accounts.

### Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, there are costs associated with the funding of capital expenditure, which include:

- interest payable on loans borrowed to fund the capital investment programme;
- annual write down of premiums from the historic rescheduling of loans; and
- an annual setting aside of a minimum revenue provision.

These costs are referred to as *capital financing costs* and are a direct charge to the Corporate Allocations revenue budget. The costs are offset by any investment income receivable.

The estimates of the capital financing costs are based on the proposed Capital Investment Programme and are reflected within both current and future year's budgets. The table below shows the capital financing costs as a percentage of the net revenue stream (i.e., the amount funded from Council Tax, business rates and general government grants). These figures include the principal and interest costs for the Council's private financing initiative (PFI) schemes and finance leases.

Table 11 Prudential Indicator – Estimates of financing costs to net revenue stream

	2021-22 Actual £m	2022-23 Forecast £m	2023-24 Budget £m	2024-25 Budget £m	2025-26 Budget £m
Financing costs	20.006	21.169	23.169	24.639	25.327
Proportion of net revenue stream excluding PFI's	11%	11%	11%	12%	12%
Proportion of net revenue stream including PFI's	18%	18%	18%	19%	19%

The above indicators show that the Council has a revenue budget commitment from its current Capital Investment Programme and other long-term liabilities. The Council sets aside sufficient



revenue budget to cover the costs of borrowing associated with the capital investment plans, for both the current financial year and future years.

## **Knowledge and Skills**

The Council employs professionally qualified and experienced employees in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

The training needs of the Council's treasury management function are monitored, reviewed and addressed on an on-going basis and are discussed as part of the employee appraisal process. Most training needs are addressed through the attendance of training courses, seminars and conferences provided by CIPFA, brokers and the Council's treasury management advisor Arlingclose.

The Council has appointed Arlingclose as treasury management advisors and receives specific advice on investment, debt, and capital finance issues, as and when required.

Whilst the Council recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources, it fully accepts that responsibility for treasury management decisions always remains with the Council and will ensure that undue reliance is not placed upon advice from the external service provider.

Arlingclose were re-appointed as the Council's treasury management advisors for a period of five years following a full tender exercise in the summer of 2022, with the terms of appointment being documented. The value and quality of the services they provide are monitored and reviewed on an on-going basis.

The Strategic Assets team act as internal valuers and annually follow an agreed programme and set protocols for the valuation of the Council's fixed asset portfolio. They also manage the disposal of properties and advise on the purchase of land and buildings. The head of the team is RICS registered, and the team are assessed periodically by the RICS for Red Book compliance and standards. The most recent scrutiny inspection was in February 2017 which confirmed the maintenance of both high standards and compliance. Where member of the assets team does not have the knowledge and skills required, use is made of external consultants who are specialists in the respective field.

**REDCAR AND CLEVELAND BOROUGH COUNCIL**

**ANNUAL TREASURY MANAGEMENT STRATEGY 2023/2024**

## INTRODUCTION

Treasury management is the management of the Council's cash-flows for both borrowing and investments and the associated risks. The Council borrows and invests substantial sums of money and is therefore exposed to potential financial risks including the loss of invested funds and the budgetary impact of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

The analysis and reporting of treasury management activities will focus on the risk implications for the organisation, and any financial instruments entered into to manage the risks. The Council is therefore committed to the principles of achieving value for money in treasury management, and to employ suitable comprehensive performance measurement techniques, within the context of effective risk management.

Treasury risk management at the Council is conducted within the framework of the CIPFA Treasury Management in the Public Services: Code of Practice 2021 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.

The CIPFA Code of Practice on Treasury Management recommends the adoption of four clauses:

1. The Council will create and maintain a strategic treasury management policy statement detailing the Council's policies and objectives and approach to risk management for its treasury management activities. This will be underpinned with a framework of Treasury Management Practices (TMP's) setting out the manner in which the Council will seek to achieve its policies and objectives and prescribing how it will manage and control those activities. The Code recommends 12 practice statements.
2. The Cabinet will receive reports on its treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, in quarterly updates as part of the monitoring of the Council's financial position and in the financial outturn report for the year end position, in the form prescribed in its TMPs. Full Council will approve the annual strategy.
3. The execution and administration of treasury management decisions will be the responsibility of the Director of Finance (Section 151 Officer), as the Council's Chief Finance Officer, who will act in accordance with the organisation's policy statement and TMPs.
4. The Council nominates the Governance Committee to be responsible for ensuring effective challenge of the Treasury Management Strategy and policies.

Investments held for service purposes or for commercial return are included in the Investment Strategy - **APPENDIX C**.

## TREASURY MANAGEMENT PRACTICES

The CIPFA Code of Practice recommends twelve treasury management practice statements (TMPs). These statements will be reviewed as and when necessary, in the light of regulatory and/or local policy changes.

The list of twelve practice statements is as follows:

- TMP 1 Risk Management – details how the following risks will be identified, monitored and controlled: credit and counterparty, liquidity, interest rate, exchange risk, inflation, refinancing, legal and regulatory, fraud, error and corruption, contingency management and market risk.
- TMP 2 Performance Measurement – to ascertain how performance will be measured and value for money assured within an effective risk management framework.
- TMP 3 Decision Making and Analysis – details the processes to be undertaken when making treasury management decisions to ensure that the necessary checks and safeguards are in place.
- TMP 4 Approved Instruments, Methods and Techniques – this provides the clarity of which treasury management instruments, methods and techniques can be used.
- TMP 5 Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements – provides a clear statement of responsibilities for all involved in treasury management to ensure that appropriate controls such as segregation of duties are in place.
- TMP 6 Reporting Requirements and Management Information Arrangements – this specifies the Council’s reporting requirements for both the approval of the strategies, the in-year monitoring and the year-end position.
- TMP 7 Budgeting, Accounting and Audit Arrangements – in order to enhance accountability all the income and expenditure for treasury management should be brought together;
- TMP 8 Cash and Cash Flow Management – the preparation of cash-flow projections on a regular and timely basis provides a solid framework for effective cash management.
- TMP 9 Money Laundering – provides details of the processes the Council has in place to identify and report potential money laundering.
- TMP10 Training and Qualifications – this details the arrangements in place to ensure that those responsible for treasury management (for both Officers and those charged with Governance) have the appropriate skills and knowledge to carry out their role effectively.
- TMP11 Use of External Service Providers – the use of external providers and the services provided by them.
- TMP12 Corporate Governance – detailing how the Council ensures that treasury management activities are undertaken with openness and transparency, honesty, integrity, and accountability.

The detailed TMP’s are available from [treasuryteam@redcar-cleveland.gov.uk](mailto:treasuryteam@redcar-cleveland.gov.uk).

## EXTERNAL CONTEXT

The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority’s treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.05% to 3.5% in December 2022. This is following the largest single rate hike of 0.75% since 1989 in November and the ninth successive rise since December 2021. The December decision was voted for by a 6-3 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3% and one for a larger rise of 0.75%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government’s support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.5% in December 2022 to 4.25%-4.5%. This rise follows four successive 0.75% rises in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 7%. GDP grew at an annualised rate of 3.2% (revised up from 2.9%) between July and September 2022, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation rose consistently in the Euro Zone since the start of the year, hitting a peak annual rate of 10.6% in October 2022, before declining to 10.1% in November. Economic growth has been weakening with an upwardly revised expansion of 0.3% (from 0.2%) in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.50% in December, following two consecutive 0.75% rises, taking its main refinancing rate to 2.5% and deposit facility rate to 2.0%.

## **CREDIT OUTLOOK**

Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

CDS price volatility was higher in 2022 compared to 2021 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

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**

The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

While interest rate expectations reduced during the final quarter of 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

Table 1 – Arlingclose Bank Rate Forecasts (as at December 2022)

Year	2023					2024				2025			
Period	Current	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.
Upside Risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Bank Rate Forecast	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25
Downside Risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00

The interest rate forecasts are based on the following underlying assumptions:

- The influence of the mini budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.
- Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.
- The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power – recent data suggests the UK has passed peak inflation.
- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.
- Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.
- Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight, and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.
- While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the ECB seems to harbour (worryingly) few doubts about the short-term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to September 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

**Table 2 – Public Works Loan Board (PWLB) Borrowing Rates (as at December 2022)**

<b>PWLB Borrowing Rates</b>				
Year	Period	Annual Average %		
		5 Year	10 Year	50 Year
2023	March	4.40	4.30	4.40
	June	4.60	4.40	4.40
	September	4.60	4.40	4.40
	December	4.60	4.40	4.40
2024	March	4.50	4.40	4.40
	June	4.40	4.30	4.40
	September	4.30	4.30	4.40
	December	4.20	4.30	4.40
2025	March	4.10	4.30	4.40
	June	4.10	4.30	4.40
	September	4.10	4.30	4.40
	December	4.10	4.30	4.40

### **TREASURY LIMITS FOR 2023/2024 TO 2026/2027**

It is a statutory duty under Section 3 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. In England and Wales, the ‘Authorised Limit’ represents the legislative limit specified in Section 3 of the Act.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and that the impact upon its future council tax levels is affordable.

Whilst termed an “Authorised Limit for external borrowing”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and at least two successive financial years. Details of the Authorised Limit are set out later in this report.

### **CURRENT PORTFOLIO POSITION**

On 31 December 2022, the Council held £200.691 million of borrowing. This is set out in further detail in the table below:

Table 3 – The Council’s Treasury Management Position on 31 December 2022

Borrowing	31.12.2022 £m's	Rate %	Average Life Years	31.3.22 £000's	Rate %	Average Life Years
<b>Fixed Rate Funding</b>						
PWLB	91.406	2.73	12	57.957	2.37	13
Market - LOBO	25.000	6.44	52	25.000	6.44	52
Market - Fixed	48.750	6.47	53	48.750	6.47	52
Other LA Funding	15.558	3.90	11	15.000	4.05	12
<b>Total Fixed Rate</b>	<b>180.714</b>	<b>4.36</b>	<b>29</b>	<b>146.707</b>	<b>4.60</b>	<b>32</b>
<b>Short Term Fixed rate</b>						
Local Authority	18.000	1.13	0	36.557	0.12	<1
<b>Total Variable Rate</b>	<b>18.000</b>	<b>1.13</b>	<b>0</b>	<b>36.557</b>	<b>0.10</b>	<b>&lt;1</b>
<b>TOTAL</b>	<b>198.714</b>	<b>4.06</b>	<b>26</b>	<b>183.264</b>	<b>3.71</b>	<b>26</b>
Salix Loan	1.977	-	2	2.543	-	3
<b>TOTAL</b>	<b>200.691</b>	<b>4.02</b>	<b>26</b>	<b>185.807</b>	<b>3.66</b>	<b>26</b>

The Council seeks to maintain an under-borrowed position, as set out in Table 4. This means that the capital borrowing needed (the CFR), has not been fully funded with external debt. The cash available to support the Council’s reserves, balances and cash flow is being used as a temporary source of finance in lieu of securing external loans. Table 4 demonstrates that potential additional borrowing, over and above the planned amount required to fund the medium-term Capital Investment Programme, may be required to be taken to stabilise the liquidity of the Council. This will continue to be monitored with loans only being agreed when required. The external borrowing (loans) amount does include an assumed level of borrowing to fund the Capital Investment Programme.

Table 4 – The Council’s Borrowing Requirement

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Capital Financing Requirement (Capital Programme)	205.047	208.377	219.697	221.501	222.706
Capital Financing Requirement (PFI's)	60.640	59.089	57.465	55.765	53.985
<b>Total Capital Financing Requirement</b>	<b>265.687</b>	<b>267.466</b>	<b>277.162</b>	<b>277.265</b>	<b>276.691</b>
Less: External Borrowing (Loans)	- 185.807	- 196.003	- 207.616	- 209.420	- 210.625
Less: External Borrowing (Long Term Liabilities)	- 50.329	- 44.874	- 44.874	- 42.363	- 39.856
<b>Total Debt</b>	<b>- 236.136</b>	<b>- 240.877</b>	<b>- 252.490</b>	<b>- 251.782</b>	<b>- 250.481</b>
Internal Borrowing	29.551	26.589	24.672	25.483	26.210

CIPFA’s Prudential Code for Capital Finance in Local Authorities recommends that the Council’s total debt should be lower than its forecast Capital Financing Requirement (CFR) over the three years. Table 4 shows that the Council expects to comply with this recommendation.

Forecast changes in these sums are shown in the balance sheet analysis in the table below. This table excludes leases and PFI liabilities and only shows loans to which the authority is committed and it excludes optional refinancing.

Table 5 – Balance Sheet Summary and Forecast

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Capital Financing Requirement	265.687	267.466	277.162	277.265	276.691
Less: Other Debt Liabilities	-60.640	-59.089	-57.465	-55.765	-53.985
<b>Loans CFR</b>	<b>205.047</b>	<b>208.377</b>	<b>219.697</b>	<b>221.501</b>	<b>222.706</b>
Less: External Borrowing (Loans)	- 185.807	- 191.003	- 168.972	- 162.547	- 140.122
<b>Internal Borrowing</b>	<b>19.240</b>	<b>17.374</b>	<b>50.725</b>	<b>58.954</b>	<b>82.584</b>
Less: Balance sheet resources	- 53.923	- 41.923	- 37.500	- 37.500	- 37.500
<b>Treasury Investments (or New Borrowing)</b>	<b>- 34.683</b>	<b>- 24.549</b>	<b>13.225</b>	<b>21.454</b>	<b>45.084</b>

The balance sheet resource in the table above is difficult to forecast as this includes all balance sheet items with the exception of treasury investments, borrowing and other debt liabilities.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying basis available for investment.

The Authority has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow over the life of the Capital Investment Programme.

### Liability Benchmark

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 5 above, but that cash and investment balances are kept to a minimum level of £10.000 million at each year-end to maintain sufficient liquidity but minimise credit risk.

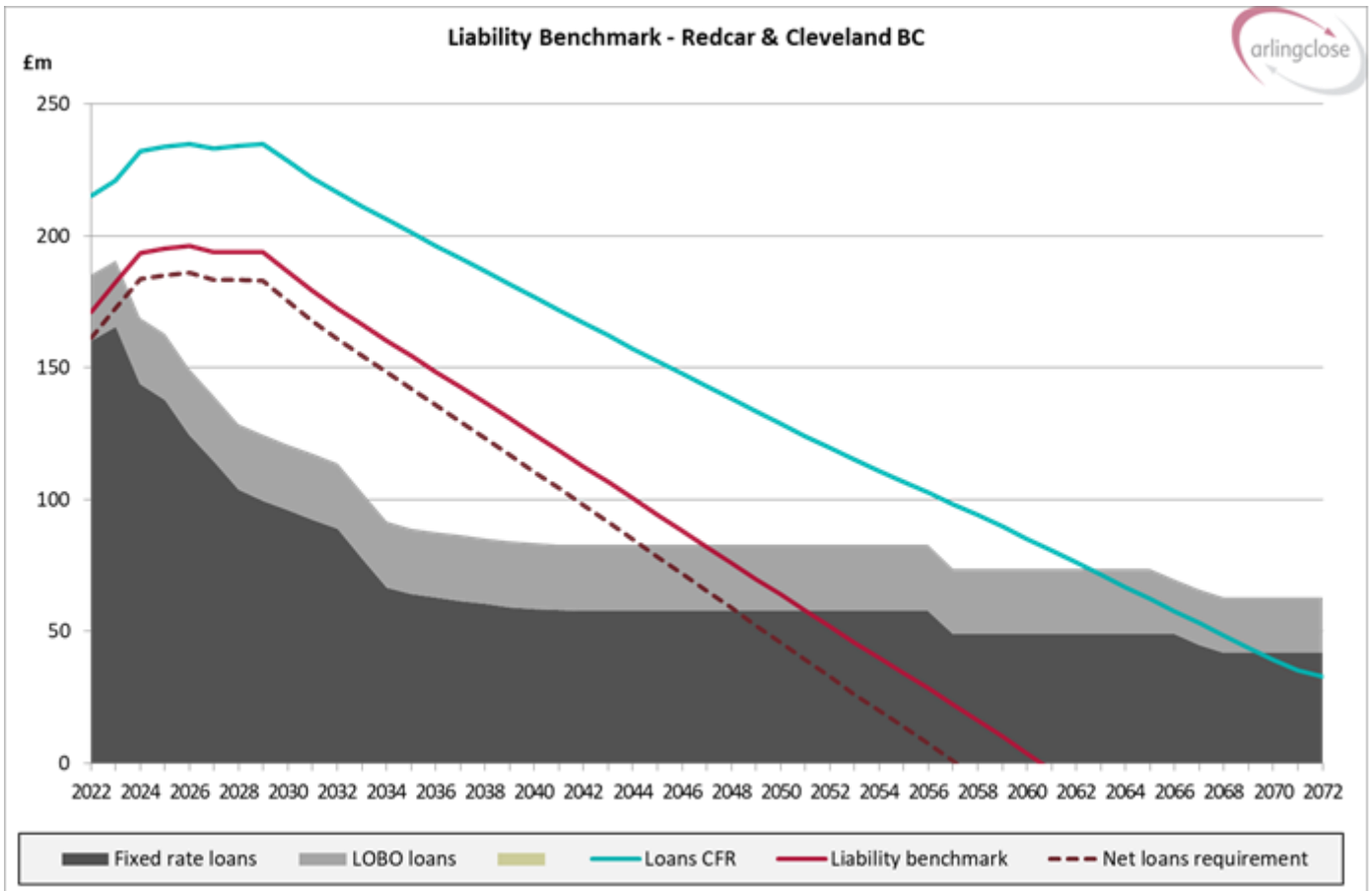
The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 6 – Prudential Indicator Liability Benchmark

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Loans CFR	205.047	208.377	219.697	221.501	222.706
Less: Balance Sheet Resources	-53.923	-41.923	-37.500	-37.500	-37.500
<b>Net Loans Requirement</b>	<b>151.124</b>	<b>166.454</b>	<b>182.197</b>	<b>184.001</b>	<b>185.206</b>
Plus : Liquidity Allowance	10.000	10.000	10.000	10.000	10.000
<b>Lioability Benchmark</b>	<b>161.124</b>	<b>176.454</b>	<b>192.197</b>	<b>194.001</b>	<b>195.206</b>

Following on from the medium-term forecasts in table 6 above, the long-term liability benchmark assumes capital expenditure funded by borrowing of the amounts approved as part of the Capital Investment Plan for the medium term (shown in Table 1 of the Capital Strategy) and £7.500 million a year over the long-term, minimum revenue provision calculations based on the approved programme and an average estimated useful life over the long-term and income, expenditure and reserves all increasing by inflation. This is shown in the chart below together with the maturity profile of the Council's existing borrowing:





The top line of the chart shows the loans CFR with the year-end liability benchmark and the net loans requirement being lower. As loans mature (the shaded blocks) and new capital expenditure is incurred the area below the liability benchmark and above the loans shows an additional need to borrow for a period of approximately 20 years. The liability benchmark is lower than the loans CFR as this assumes treasury investments are kept at the minimal level required to manage day-to-day cash flow.

**BORROWING STRATEGY**

The Council’s level of external loans is anticipated to be £196.003 million at the end of 2022/23, an increase of £10.196 million on the previous year. The increase in year is due to new borrowing to fund the Capital Investment Programme for both in year spend and delayed borrowing from previous years. This was previously deferred due to the high level of cash balances received from central government to act as an agent for various schemes.

The outstanding debt below excludes other long term liabilities such as PFI contracts and finance leases which are regarded as debt outstanding for prudential indicator purposes.

Table 7 - Summary of Council Borrowing

Year End @31/3	Debt Outstanding	Year on Year Variation	Average Interest Rate	Capital Investment
	£m	£m	%	£m
2005	116.354	18.769	5.27	26.301
2006	123.346	6.992	5.28	33.219
2007	142.334	18.988	5.22	45.625
2008	142.525	0.191	5.57	48.471
2009	152.500	9.975	5.16	44.322
2010	147.550	- 4.950	5.16	35.784
2011	150.238	2.688	5.25	31.051
2012	157.509	7.271	5.13	34.299
2013	172.287	14.778	4.72	39.145
2014	173.463	1.176	4.81	34.972
2015	171.439	- 2.024	5.02	15.484
2016	167.414	- 4.025	5.06	18.676
2017	157.888	- 9.526	5.17	12.578
2018	159.861	1.973	5.17	13.568
2019	190.758	30.897	3.82	19.996
2020	212.846	22.088	3.53	30.820
2021	196.573	- 16.273	3.55	23.321
2022	185.807	- 10.766	3.66	31.459
2023	<i>196.003</i>	<i>10.196</i>	<i>n/a</i>	<i>36.024</i>
2024	<i>207.616</i>	<i>11.613</i>	<i>n/a</i>	<i>43.420</i>
2025	<i>209.420</i>	<i>1.804</i>	<i>n/a</i>	<i>23.766</i>
2026	<i>210.625</i>	<i>1.206</i>	<i>n/a</i>	<i>14.447</i>

*Forecast figures shown in red italics*

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.

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. In previous financial years, the Council opted to utilise internal borrowing. This option becomes less feasible when the Council holds low levels of cash balances. Due to rising interest rates experienced during 2022/23, the Council acted proactively to switch towards locking in longer term rates to achieve certainty and to remove the risk on interest rates becoming significantly higher on maturing short-term debt. The level of short-term loans is now significantly lower than in previous financial years. The strategy for future years will be dependent on interest rate forecasts and assumptions on when rates will start reducing.

The Council has in recent years raised the majority of its current long-term borrowing from the PWLB but will consider long-term other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates of interest. Local authorities who wish to buy investment properties primarily for yield are effectively prevented from accessing PWLB loans to fund any aspect of their entire capital plan. The Council has no plans to include any purchase of commercial investment property to primarily generate a yield within its Capital Investment Programme.

Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

The approved sources of long-term and short-term borrowing for the Council are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board).
- UK local authorities.
- Any bank or building society authorised to operate in the UK.
- UK public and private sector pension funds.
- Capital market bond investors.
- Any other UK public sector body.
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

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 initiatives.
- Sale and leaseback.

The 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 meet its obligations 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 Cabinet.

The Council has £25.000 million of LOBO (Lender Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. There are no LOBO loans that have a call option in 23/24, although with interest rates having risen rapidly during 2022/23, there is a reasonably increasing possibility that lenders will exercise their options if the rates are still high when there are call dates. If lenders do exercise these options, the Council will probably take the option to repay the loan to reduce refinancing risk in later years. It may also be possible to restructure any remaining LOBO loans if it is economically viable and the lender has the appetite to do so. The Council may take advantage of this and replace some loans with new loans where this is expected to lead to an overall cost saving or a reduction in risk.

The PWLB allows the repayment of loans before maturity with either the payment of a premium or the receipt of 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, 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.

## **Borrowing in Advance of Need**

The Council may from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the investing period. These risks will be managed as part of the Council's overall management of its treasury risks.

Borrowing in advance will be made within the constraints that:

- The Council does not exceed its Authorised Limit for borrowing;
- It will be limited to no more than 80% of the expected increase in borrowing need (CFR) over the three-year planning period; and
- The Council would not look to borrow more than 36 months in advance of need.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the quarterly or annual reporting mechanism.

## **TREASURY INVESTMENT STRATEGY**

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £15.000 million and £61.000 million. This has been higher than previous financial years due to securing long-term debt from PWLB in advance of need which was then invested to reduce the cost of carry. It is anticipated that cash levels will revert to normal levels in 2023/24.

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 from 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. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

The majority of the Council's surplus cash is invested in fixed deposits with the Debt Management Office (DMO) or in short-term unsecured bank deposits and money market funds. This is a continuation of the current strategy and reflects the low cash balances generally held by the Council.

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.

The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management, but the Council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the Capital Investment Programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

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.

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.

## **Risk Assessment and Creditworthiness Policy**

Credit ratings are obtained and monitored by the Council's treasury advisors, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investment 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 existing investments with the affected counterparty.

Where a credit rating announces that an A- rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") 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.

Credit ratings are indicative, but not perfect predictors of investment default. Consideration is 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 advisor. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the Council's criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office, treasury bills or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Sole reliance will not be placed on the use of the external service provided by the Council's treasury management advisors. In addition, this Council will also use market data and market information, information on Government support for banks and the credit ratings of that Government support, as well as office judgement and expertise.

## **Liquidity Management**

The Council uses a cash-flow forecasting model to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic 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 plan and cash flow forecast.

The Council will spread its liquid cash over at least four providers to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

## Investment Reports to Members

Reporting to Members on investment matters will be as follows:

- In-year investment reports will be submitted to Cabinet as part of the Quarterly Financial Position reports.
- At the end of the financial year a report on the Council's investment activity will be submitted to Cabinet as part of the Consolidated Financial Outturn report.

## Counterparty List Criteria

When considering any financial investment, the Council will give paramount importance to the security aspect of the transaction. Although risk and return are important, they will be deemed to be of a secondary nature.

Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of instrument is used, otherwise the counterparty credit rating is used. However, investment decisions are never solely based on credit ratings and all other relevant factors including external advice will be considered.

The Council has general reserves available to cover investments losses. To minimise the potential impact of a single default on an unsecured investment, the maximum that will be lent to any organisation (other than the UK Government, local authorities, and pooled funds) will be £2.500 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds do not count against the limit for any single foreign country since the risk is diversified over many counties.

In terms of the Council's investment counterparties the following framework will apply:

Counterparty		Individual Cash Limit		Total Limit	Max Period
		Unsecured	Secured		
UK, Foreign Banks and other organisations whose lowest published long-term credit rating is:	AAA	£2.5m	£5m	£25m	2yrs
	AA+	£2.5m	£5m	£25m	2yrs
	AA	£2.5m	£5m	£20m	2yrs
	AA-	£2.5m	£5m	£20m	2yrs
	A+	£2.5m	£5m	£15m	2yrs
	A	£2.5m	£5m	£15m	1yrs
	A-	£1.5m	£3m	£9m	1yrs
Council's own Clearing Bank		£3m	N/A	£3m	N/A*
UK Building Societies without credit ratings		£1m	£2m	£5m	6m
UK Local Authorities		£5m	N/A	N/A	2yrs
UK Gov't DMO, Treasury Bills, Treasury Gilts & Instruments		Unlimited		Unlimited	3yrs
Money Market Funds		£3m	N/A	£20m	N/A
Other Pooled Funds		£10m	N/A	£20m	N/A
Real Estate Investment Trusts		£3m	N/A	£6m	N/A
Any other organisation, subject to an external credit assessment and specific advice from the Council's treasury management advisor		£2m		£4m	2yrs

\*If the Council's own clearing bank fails to meet the minimum credit quality criteria the time limit on investments will be restricted to overnight.

**Current Bank Account:** The Council's current account is held with NatWest which currently meets the minimum A- rating. The limit for NatWest is however higher than other banks for operational reasons. If the rating falls below A- the Council may continue to deposit surplus cash with NatWest

providing those investments can be withdrawn on the next working day and that the bank maintains a credit rating no lower than BBB- (the lowest investment grade rating). In practice the balance is significantly lower than the £3.000 million allowed in the Strategy. The balance, although not classified as an investment, is subject to bail-in and a proportion of the balance held may be at risk. The Bank of England has stated that in the event of failure, banks with assets greater than £25.000 billion are more likely to be bailed-in than made insolvent which will allow the Council to maintain operational banking continuity.

**Banks and Building Societies Unsecured:** Investments include instant access accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral 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.

**Secured Investments:** 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.

**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 5 years.

**Registered Providers (unsecured):** Loans to, and bonds issued by 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:** 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 Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

**Strategic Pooled Funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority 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 Authority's investment objectives will be monitored regularly.

**Real Estate Investment Trusts (REITs):** 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, REIT's offer enhanced returns over the long term, but are more volatile especially as the share price reflects changes in the value of the underlying properties. Investors in REIT's shares cannot be withdrawn but can be sold on the stock exchange to another investor.

**Other Investments:** 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 Authority's investment at risk.

Full individual listings of counterparties and counterparty limits are held by Financial Services and investments are reported as part of the quarterly performance updates to Cabinet.

## Ethical Investments

The Council seeks to ensure that it does not invest in unethical investments. Examples include investments relating to human rights abuses, environmental degradation, discrimination on the grounds of race, gender, disability or sexuality, support of unethical operations such as arms sales to military regimes, tobacco production or animal testing for cosmetic reasons.

## TREASURY MANAGEMENT INDICATORS FOR 2022/2023 TO 2025/2026

The Council measures and manages its exposure to treasury management risks using the following indicators.

**Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average 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 the investment. Unrated investments are assigned a score based on their perceived risk.

Credit Rate Indicator	Target
Portfolio average credit	A

**Interest rate risk:** CIPFA defines interest rate risk as “the risk that fluctuations in the levels of interest rates creating an unexpected or unbudgeted burden on the organisation’s finances, against which the organisation has failed to protect itself adequately”. In local authorities, this risk is therefore commonly considered in the context of the impact of changes in interest rates on the revenue accounts, particularly where a local authority is a net borrower.

The Council has opted to benchmark the risk by measuring the impact of a 1% change in interest rates. This benchmark provides protection to the revenue account from unexpected falls in interest rates causing a loss of investment income, and from unexpected raises in interest rates causing an increase in interest payable.

The Council as part of its medium-term financial planning process makes an assumption on projected interest rate rises or falls. In the event that interest rates rise faster than anticipated, which creates a budgetary pressure in relation to the cost of borrowing; this will be reflected in the quarterly finance report and will be funded from either savings elsewhere in the Council or from earmarked reserves.

The Council is expected to remain a net borrower in the medium to long term so a fall in rates would lead to savings rather than incurring additional cost.

Interest Rate Exposure	Limit £m
Upper limit on one-year revenue impact of a 1% rise in interest rates	0.707
Upper limit on one-year revenue impact of a 1% fall in interest rates	0

The amounts in the table above cover the period 2022-2025.

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

**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 Limit	Lower Limit
Under 12 months	35%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	80%	0%
5 years and within 10 years	90%	0%
10 years and within 25 years	100%	0%
25 years and above	100%	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. The Code requires that LOBO loans are treated as if they will mature in their next call period.

**Long-term treasury management investments:** 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 potential limits on the long-term treasury management investments will be:

Price risk indicator	2023/24	2024/25	2025/26
Limit on principal invested beyond year end	£25m	£25m	£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.

## OTHER TREASURY MANAGEMENT ISSUES

Where investment income exceeds budgetary target (for example, investment income from higher risk investments including pooled funds), or debt interest paid falls below budget, (e.g. from the sourcing of low-interest short-term borrowing) then then the Council will aim to transfer an element of this revenue saving into a separately held treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

### Policy on the Use of Financial Derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

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 financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall Treasury Management Strategy.

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.

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

The Council has opted up to professional status with the majority of its providers of financial services, including advisors, banks, brokers and fund managers. This allows 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 (Section 151 Officer) believes this to be the most appropriate status.

## Other Options Considered

The CIPFA code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance (Section 151 Officer) 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 and is more likely to place an additional revenue cost burden on the Council	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 and the Council would be exposed to risks of low cash balances at certain points during the financial year.

**REDCAR & CLEVELAND BOROUGH COUNCIL**  
**ANNUAL INVESTMENT STRATEGY 2022/2023**

## INTRODUCTION

The Council invests its money for three broad purposes:

- because it has surplus cash because of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This Investment Strategy meets the requirements of statutory guidance issued by the Government in January 2018 and focuses on the second and third of these categories.

## TREASURY MANAGEMENT INVESTMENTS

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of both the police and fire authorities and Central Government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £35.000 million and £10.000 million during the 2023/24 financial year.

### Contribution

The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

### Further details

Full details of the Council's policies and its plan for 2023/24 for treasury management investments are covered in a separate document, the Treasury Management Strategy included in APPENDIX B

## SERVICE INVESTMENTS: LOANS

The Council's general investment powers come under the Local Government Act 2003 (section 12). Under this Act a local authority has the power to invest for any purposes relevant to its functions or for the purpose of the prudent management of its financial affairs.

In addition to investment the Council has the power to provide loans and financial assistance to organisations under the Localisation Act 2011 (and also formally under the general power of wellbeing in the Local Government Act 2000) which introduced a general power of competence for authorities (to be exercised in accordance with their general public law duties).

Any such loans to organisations by the Council, will therefore be made under these powers. and will either be classed as capital expenditure by the Council under the Local Authorities (Capital Finance and Accounting) Regulations 2003 or as a revenue loan.

## Contribution

The Council may lend money to its subsidiaries, businesses, charities, housing associations, and its employees to support local public services and stimulate local economic growth. It is anticipated that the only material loans remaining in the accounts at the 31 March 2023 are:

- Redcar and Cleveland Legal Services Ltd - £1.300 million. This loan was agreed to part fund the purchase of Cygnet Family Law Ltd and will be repaid over a long-term period.
- Sports Leisure Management - £0.143 million. This loan was agreed as part of the tendering process to select an operator to run the Council's leisure centres. The loan is given to fund the replacement of capital assets and is repaid on an agreed schedule.

## Security

The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. To limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for Service Purposes

	31.03.2022 Actual	31.03.2023 Forecast			2023/24
	Balance Owing £m	Balance Owing £m	Loss Allowance £m	Net figure in accounts £m	Approved Limit £m
Subsidiary	1.227	1.300	0.073	1.227	3.000
Charities	0.238	0.161	0.002	0.160	
Businesses	0.007	0.006	0.001	0.006	
Service Users	0.013	0.013	0.001	0.012	
Employees	0.084	0.084	0.000	0.084	
Total	1.569	1.564	0.077	1.488	3.000

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts from 2018/19 onwards are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

## Risk Assessment

The Council assesses the risk of loss before entering into a contract. Loans (excluding employee loans) will be assessed following a financial assessment of the organisation which will include the company's accounts and a business plan.

## SERVICE INVESTMENTS: SHARES

The Council currently holds the following shares:

**Durham Tees Valley Airport Ltd** – the Council has a shareholding in the airport. These are currently valued at zero due to operating losses incurred during recent financial years.

**Veritau Tees Valley Ltd**– the Council holds a 25% shareholding in the company.

**Redcar & Cleveland Legal Services Ltd** – the Council holds a 100% shareholding in the company.

The shares in the Airport are historic and were transferred to the Council as part of Local Government Reorganisation. The Council has elected to hold the shares at Fair Value through Other Comprehensive Income (FVOCI). In effect this means that any movement in the fair value of the shares can be held in an unusable reserve until derecognition. At the point of derecognition any balance in the reserve will need transferring to the Income and Expenditure account.

The shareholding in Veritau Tees Valley is due to the transfer of the audit service into a newly created company operated by parent company Veritau. The shareholding within Veritau – Tees Valley will have a 50% share ownership by the Veritau parent company and then a 25% share ownership by each of Redcar & Cleveland Council and Middlesbrough Council. The Veritau parent company is 100% owned, in equal parts, by North Yorkshire County Council and City of York Council.

Redcar and Cleveland Legal Services Ltd is a holding company which holds 100% of the shareholding in Cygnet Family Law Ltd, which was acquired in July 2021.

The Council does not currently invest in shares to support local public services or to stimulate local economic growth. There are risks in investing in shares. They may fall in value meaning that the initial outlay may not be recovered.

If it becomes advantageous to purchase shares this strategy will be updated and resubmitted for approval.

**Non-specified Investments:** Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The holdings above on share investments are therefore also the Council's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

## **COMMERCIAL INVESTMENTS: PROPERTY**

The Ministry of Housing and Central Local Government (MHCLG) defines property to be an investment if it is held primarily or partially to generate a profit.

The Council currently holds a portfolio of assets which are categorised as investment properties because they meet the definition under the CIPFA code which is:

*“property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both, rather than for administrative purposes”*

The majority of the investment properties in the Council's portfolio are historic or have been constructed as part of regeneration projects. If these are deemed not beneficial to the outcomes for the Council, they will become surplus and marketed for sale.

The Council does not currently hold any investment properties purchased primarily or partially to generate a profit. If this becomes a priority for the Council, a detailed business case will be prepared and reported to Cabinet for approval prior to inclusion in the Capital Investment Programme. The Strategy will also be updated with details regarding security, risk and liquidity of the property acquired.

## **LOAN COMMITMENTS AND FINANCIAL GUARANTEES**

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council. The Council currently has no contractual commitments or guarantees.

If the Council enters into or becomes liable for a loan commitment or financial guarantee this strategy will be updated.

## **INVESTMENT INDICATORS**

The Council has set the following quantitative indicators to allow elective members and the public to assess the Council's total risk exposure as a result of its investment decisions.

## Total Risk Exposure

The first indicator shows the Council's total exposure to potential investment losses.

Table 2 – Total Investment Exposure

	31.03.2022 Actual £m	31.03.2023 Forecast £m	31.03.2024 Forecast £m
Treasury management investments	24.001	14.216	14.216
Service investments: Shares	0.333	1.742	1.742
Service investments: Loans	1.569	1.488	1.583
<b>Total Exposure</b>	<b>25.903</b>	<b>17.445</b>	<b>17.540</b>

## How Investments Are Funded

Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 3: Investments funded by borrowing

	31.03.2022 Actual £m	31.03.2023 Forecast £m	31.03.2024 Forecast £m
Service investments: Loans	1.569	1.488	1.583
Service investments: Shares	1.742	1.742	1.742
<b>Total Funded by Borrowing</b>	<b>3.311</b>	<b>3.230</b>	<b>3.325</b>

## Rate of Return Received

This indicator shows the investment income received less the associated cost of borrowing, if appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 4- Investment Rate of Return

	31.03.2022 Actual %	31.03.2023 Forecast %	31.03.2024 Forecast %
Treasury management investments	1.08%	2.09%	1.67%
Service investments: Shares	0.00%	1.67%	1.93%
Service investments: Loans	0.26%	0.25%	0.30%
Commercial Investments: Property	0.19%	0.18%	0.23%
<b>Total Exposure</b>	<b>1.53%</b>	<b>4.20%</b>	<b>4.13%</b>

**MINIMUM REVENUE PROVISION POLICY STATEMENT 2023/2024**

When the Council finances expenditure by debt, it must set aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as the Minimum Revenue Provision (MRP). Although there has been no statutory minimum since 2008, the Local Government Act 2003 requires the Council to have regard to the former Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Minimum Revenue Provision most recently issued in 2018.

The broad aim of MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Council to approve an Annual MRP statement each year and recommends a number of options for calculating a prudent amount of MRP. The proposed methods are as follows: -

- For capital expenditure incurred before 31 March 2008, MRP will be determined as 2% of the Capital Financing Requirement as at the 01.04.2021 adjusted by Factor A and will be on a straight-line basis for future financial years.
- For unsupported capital expenditure incurred after 31 March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset on an annuity basis equal to a PWLB rate at the end of the relevant financial year. MRP on land and buildings will not exceed 50 years and MRP on expenditure not related to fixed assets, but which has been capitalised by regulation or direction will be charged over 20 years.
- For assets acquired by finance leases or a PFI, the MRP will be determined by charging the expenditure over the expected useful life of the relevant asset on an annuity basis equal to a PWLB rate at the end of the relevant financial year.
- Where loans are made to other bodies for their capital expenditure, no MRP will be charged. The capital receipts generated by the annual repayment on those loans will be put aside to repay debt instead.
- Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until in the year after the asset becomes operational.

Based on the Council's estimate of its Capital Financing Requirement on 31 March 2023, the 2023/24 budget and future years MRP is estimated to be as follows:

<b>Capital Financing Requirement (CFR)</b>	<b>Estimated CFR 31.03.2023 £m</b>	<b>Budgeted MRP 2023-24 £m</b>	<b>Budgeted MRP 2024-25 £m</b>	<b>Budgeted MRP 2025/26 £m</b>
Capital Expenditure Before 31.3.2008	87.677	1.861	1.861	1.861
Unsupported Capital Expenditure after 31.3.2008	120.700	2.833	3.339	3.862
Finance Leases and Private Finance Initiatives	59.089	1.624	1.700	1.780
<b>Total</b>	<b>267.466</b>	<b>6.318</b>	<b>6.900</b>	<b>7.503</b>





# Member Report

## Information Governance Annual Report 2022/23



**Report to:** Governance Committee

**Report from:**

**Portfolio:** Resources

**Report Date:** 6 February 2023

**Decision Type:** Committee

**Council Priority**

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## INFORMATION GOVERNANCE ANNUAL REPORT 22/23

### 1 Summary of report

- 1.1 The purpose of this report is to provide Members of the Governance Committee with a summary of the work undertaken last year, under the Council's Information Governance Framework. These are the arrangements the Council has in place to meet its legal and business needs in terms of information governance. The report seeks to provide assurance that the Council has a programme in place to ensure that information is managed appropriately.
- 1.2 The report also includes the annual monitoring report on requests made during 2022 in accordance with the Freedom of Information Act 2000 and Environmental Information Regulations 2004, together with some comparable information from previous years.

### 2 Recommendation

- 2.1 It is recommended that the Governance Committee note the report.

## DETAILED PROPOSALS

### 3 What are the objectives of the report and how do they link to the Council's priorities?

- 3.1 Information Governance considerations apply to all directorates. The Council's Information Governance Framework continues to be managed and administered by the corporate Information Governance Group (IG Group) under the direction and guidance of the Governance Director (Monitoring Officer) (also Senior Information Risk Owner or "SIRO").
- 3.2 The corporate IG Group meets bi-monthly to discuss information governance issues across directorates and to provide oversight on data protection, policy and communications sign-off, and data breach management.

### Compliance with GDPR

- 3.3 Data protection reforms implemented in 2018 through the General Data Protection Regulation (GDPR) and enshrined in UK law through the Data Protection Act 2018 built on principles and good practice which had been encompassed in previous legislation.
- 3.4 The Council is registered with the ICO for the processing of personal data and demonstrates its compliance with the legislation in a number of ways.

#### Staffing

- 3.5 The Council has a Data Protection Officer, currently provided as a service through Veritau, supported by the Employment Law Manager, an Information Governance Officer and an apprentice (the IG team).

#### Information Asset Audits

- 3.6 The IG team has had responsibility for keeping records of the Council-wide information asset audits which have been completed by service managers and for periodically auditing these records to ensure compliance. The Data Protection Officer is involved in an ongoing Council-wide review of the information asset audits held and continues to liaise with managers, discussing the processing of personal data they do and ensuring that the documentation they hold accurately reflects this.

#### Privacy Notices

- 3.7 The IG Team also keeps records of privacy notices held for various service areas of the Council. The privacy notices describe to those using the Council's services what personal information is held, under which lawful basis, and how this information is processed. As with information asset audits, the Data Protection Officer has been involved in an ongoing Council-wide review of privacy notices which have been brought up to date having liaised with managers to ensure that privacy notices are fit for purpose.

#### Subject Access Requests

- 3.8 The IG Team also processes any Subject Access Requests from individuals who wish to have access to their files. During the period from the beginning of January to the end of December 2022 59 Subject Access Requests were received. This represents a small increase from the previous year 2021 which saw 57 Subject Access Requests, but a large reduction from the total number of 81 in 2019 (pre-pandemic).

#### Data Protection Impact Assessments

- 3.9 Any large-scale processing of personal data, or new processing of special category personal data, requires the Council to undertake a Data Protection Impact Assessment ("DPIA") in order to identify and mitigate risks before any processing is authorised.
- 3.10 Information on DPIA's can be found on the Council's intranet pages including a template DPIA and detailed guidance for officers.

#### Mandatory IG Training

- 3.11 The Council provides online training on data protection to the Council's staff who handle personal data for their work, which is mandatory. Staff are required to undertake the training on starting employment with the Council and every two years thereafter. The online training consists of two e-learning courses called "Cyber Ninjas" and "Data Confidential". There is also an expectation that Elected Members complete this training.

- 3.12 The Council's Data Protection Officer also offers supplementary information governance training on data protection impact assessments, records management, and data protection rights and principles. A workshop on data protection impact assessments has been delivered to interested officers in the Children & Families directorate, and further sessions have been arranged for other interested officers across directorates which are scheduled on separate dates in February.

#### Veritau

- 3.13 There have been a number of challenges encountered by the IG team.
- 3.14 The high demand for expert advice and support across service areas and the lack of staffing capacity, due to turnover of staff, led to the procurement of Data Protection Officer services for one year from 1 July 2021, provided by Veritau, and this was extended for a further year from 1 July 2022.
- 3.15 Veritau have undertaken an Information Governance policy review, to bring a number of IG policies up to date, and they have also been responsible, in the DPO role, for more technical IG-related work like advising on DPIA's and data sharing agreements.

#### Data Breach Incidents and Procedures

- 3.16 There is a robust reporting process around data breaches which involves a thorough evaluation of the seriousness of each data breach reported.
- 3.17 Every data breach is assessed and investigated to determine the root cause and establish if improvements need to be made.
- 3.18 All data breaches are reported to the Council's Data Protection Officer who will assess the severity of the breach. The Data Protection Officer will liaise with relevant contacts in the service area concerned as part of this investigation. For all serious incidents the Governance Director (Monitoring Officer) / SIRO will decide if notifying the ICO is appropriate, with guidance on this provided by the Data Protection Officer.
- 3.19 It is normal for organisations the size of the Council to incur data breaches given the large amounts of personal data being processed and the presence of human error, but the steps that the Council takes to contain and recover from incidents and provide awareness are key to preventing recurrence.
- 3.20 The UK GDPR requires all organisations to report certain personal data breaches to the relevant supervisory authority, the Information Commissioner's Office ("ICO") within 72 hours of becoming aware of the breach.
- 3.21 Whilst the vast majority of data breaches reported do not warrant reporting to the ICO it is necessary to establish at an early stage the likelihood of the risk to people's rights and freedoms in the case of a breach.
- 3.22 If a risk is likely, there is an obligation to notify the ICO. If a risk is unlikely there is no requirement to do so. However, even where it is not necessary to report a breach, it is still important to document this decision, and this is done through the Council's data breach reporting process.
- 3.23 There was only one data breach self-reported to the ICO during the period January to December 2022 which compares favourably to the previous year where four were felt sufficiently serious to report to the ICO. This one breach was categorised as an "Unauthorised Disclosure" where details relating to another requester were visible in the

Council's FOI response template. This was due to an unusual technical issue which meant the information was not visible other than under specific circumstances and the ICO responded with no further action.

3.24 The total number of data breaches reported overall in the period January to December 2022 are displayed below, together with the type of breach involved:

	Unauthorised Disclosure	Incorrect Email Recipient	Incorrect Document Recipient	Breach of Policy	Email – BCC Errors	Lost/ Misplaced Data	Unauthorised Access	Unattended Documents	Technical Error	Reported to ICO
Q1 Jan-Mar 2022	7	3	3	1	0	2	1	0	1	1
Q2 Apr-June 2022	3	4	4	0	2	0	0	0	0	0
Q3 July-Sept 2022	9	7	2	2	1	1	1	1	0	0
Q4 Oct-Dec 2022	10	9	6	0	2	0	0	0	0	0

The following table shows the assessed severity of the same breaches:

	Very High	High	Moderate	Low	Very Low	White (No breach)	Total
Q1 Jan-Mar 2022	0	0	7	3	3	5	<b>18</b>
Q2 Apr-June 2022	0	0	3	5	3	2	<b>13</b>
Q3 July-Sept 2022	0	0	6	6	7	5	<b>24</b>
Q4 Oct-Dec 2022	0	0	8	14	4	1	<b>27</b>

## **Freedom of Information Monitoring Report from January to December 2022**

### The Freedom of Information Act 2000

- 3.25 The Freedom of Information Act 2000 (“FOIA”) provides the basis for any person to request access to information held by public authorities such as councils.
- 3.26 Largely the requests received by the Council are from journalists, academics, and local campaigners who request, for example, details of the Council’s spending, statistical information (like the number of parking fines issued), policy documents, minutes, tendering information, and business information held in email accounts. Often such requests are sent simultaneously to all local authorities but sometimes they might be made in response to issues which appear within the national or local media.
- 3.27 Requested information must be provided within 20 working days of the written request although this 20-working day limit can be paused where clarification of the written request needs to be sought.
- 3.28 There is a statutory upper cost limit of £450 for local authorities which has been calculated as the equivalent of 18 hours of work (at £25 per hour). This means that if it would take over 18 hours to search for and collate the requested information then the

request can be refused.

- 3.29 If a request is frivolous, has no wider value to the public, or its pure intention is to frustrate the process, then the request can be refused on the grounds that it is vexatious. However, such refusals can be contentious and need to be justifiable in case of the decision being challenged. Accordingly, refusals of requests on this basis will be relatively rare in practice.
- 3.30 There are also several other exemptions by which a request can be refused. These exemptions relate, for example, to matters such as the sensitivity of the information requested (for example if the information is personal data), whether the information is already in the public domain, commercial sensitivity, or whether disclosure of the information may harm something or someone. In these circumstances, the information should not be disclosed, and the relevant exemption will be applied. However, many of these exemptions are governed by a “public interest test” which means that the public interest in withholding the information must outweigh the public interest in disclosing the information.

### The Environmental Information Regulations 2004

- 3.31 In a similar way to the FOIA, the Environmental Information Regulations 2004 (“EIR”) provide public access to environmental information held by public authorities (for example, records about the condition of land). The information requested must be provided within 20 working days of receipt of the request – although the Council can extend the response time to 40 working days in exceptional circumstances.
- 3.32 The EIR provide no upper cost limit in the way that the FOIA does but there are, similarly, several other exemptions under which information can be withheld from disclosure.

### Council process

- 3.33 Information requests are received by the Council’s IG Team, logged and forwarded to the relevant service area, where a member of staff is then assigned to respond to the questions asked.
- 3.34 If requesters are dissatisfied about how their requests have been handled, they are free to complain either to the Council or to the ICO.

### FOI requests received in 2022

- 3.35 From the table below it can be seen that between 1 January and 31 December 2022 a total of 911 requests were received under the Freedom of Information Act 2000. Of these requests, 864 were completed – 722 within the 20-day time limit and 142 outside the limit – which gives an overall compliance rate of 83.56%.

Completed	864	Within 20 days	722
In Progress	30	Outside 20 days	142
Clarification Sought	1		
Withdrawn	0		
Elapsed	16		
Total Requests	911		

Further detail can be found below.

Freedom of Information Requests								
Month	Full Disclosure	Partial Disclosure	Request Refused	Information Not Held	In Progress/ Clarification	Lapsed	Withdrawn	Total Requests
January	40	20	8	11	0	4	0	83
February	50	23	3	5	0	2	0	83
March	37	23	4	8	0	3	0	75
April	34	30	10	7	0	1	0	82
May	53	32	4	7	1	0	0	97
June	44	29	3	7	0	0	0	83
July	36	24	2	7	0	1	0	70
August	39	16	2	6	3	1	0	67
September	38	17	3	7	1	0	0	66
October	38	8	3	9	5	2	0	65
November	37	21	2	12	9	2	0	83
December	26	14	1	4	12	0	0	57
<b>Totals</b>	<b>472</b>	<b>257</b>	<b>45</b>	<b>90</b>	<b>31</b>	<b>16</b>	<b>0</b>	<b>911</b>

### FOI comparative data from previous years

	2017	2018	2019	2020	2021	2022
Total Requests	1092	1157	1173	890	855	911
Full Disclosure	671 (61.5%)	705 (60.1%)	815 (69.5%)	485 (54.5%)	583 (68.2%)	472 (51.8%)
Partial Disclosure	147 (13.5%)	147 (12.7%)	29 (2.5%)	80 (9.0%)	77 (9.0%)	257 (28.2%)
Refused Requests	141 (12.9%)	134 (11.6%)	169 (14.4%)	163 (18.3%)	93 (10.9%)	45 (4.9%)
Information Not Held	96 (8.8%)	97 (8.4%)	120 (10.2%)	76 (8.5%)	72 (8.4%)	90 (9.8%)

3.36 The table above demonstrates that the number of requests received by the Council increased in 2022 following two years of decreasing numbers of requests although this is still not as high as in the years 2017, 2018, and 2019. The number had been increasing year upon year up to 2019, but the number in 2020 and 2021 did not follow the trend. The cyber-attack and the pandemic may well have had an impact on the number of requests in 2020 and 2021 but there is now an upward trend.

3.37 The other figure which stands out for 2022 is the large proportion (28.2%) of requests which involved partial disclosure. The reason for this is not apparent but, associated with this have been reductions in full disclosure and refused requests.

### Compliance rate

3.38 Unfortunately, the Council's compliance rate remains below the ICO's expected FOI compliance rate of 90% plus.

FOI	2017	2018	2019	2020	2021	2022
Compliance rate	87.30%	88.1%	96.62%	77.83%	88.61%	83.56%

## Internal reviews

- 3.39 Internal reviews involve a senior legal officer reviewing the original response and providing feedback to the officer and requester. The senior legal officer is able to offer reassurance and clarification to requesters, and advice to officers if they have erroneously claimed exemptions or misinterpreted a request.
- 3.40 There were 7 requests for internal review in 2022. None of those reviewed are known to have resulted in a complaint to the ICO.

## EIR requests: comparative data and compliance rate

- 3.41 Only 7 EIR requests were received in 2022, which is fewer than 2019 (27), 2020 (20), and 2021 (17). The compliance rate was 85.71% (i.e., 6 out of the 7 responses were in time). Please see EIR compliance rates below, which improved in 2022, albeit following a lower number of requests.

EIR	2018	2019	2020	2021	2022
Compliance rate	100%	91.67%	70%	76.47%	85.71%

## Plans for 2023/2024

- 3.42 Following review of the Information Governance/ Data Protection function across all directorates, actions have been agreed for the year ahead, including a records management project to analyse the information held across the Council. This will consider the location and types of records held, retention policies being carried out, and will develop and introduce new retention guidelines. A project plan will be developed and implemented for a long-term project to review and reduce paper documentation, ensure electronic records are stored in line with retention guidance and to assist in the development of digital solutions for records management. One other matter to factor into the project is the recent lifting of the 2015 moratorium on records destruction for the Independent Inquiry into Child Sexual Abuse (IICSA). With the moratorium no longer in place a significant number of Children's Services' records now fall in scope of destruction.
- 3.43 Further effort will be put in place to improve FOI response rates within timescales, and we will review and refresh our FOI publication scheme. There is an intention to increase the level of corporate support and capacity for services for advice and guidance on IG/DP, additional training will be offered to staff and managers, and reviews of the policies and guidelines currently in use across the directorates to ensure they remain updated and well-publicised within the services.

## **4 What options have been considered**

There are no options to consider for this report which is for information only.

## **5 Impact Assessment**

- 5.1 **Legal** – Yes. The Council is required to comply with a wide range of legislation including but not limited to the Data Protection Act 2018 and the Freedom of Information Act 2000.
- 5.2 **Financial** – Yes. Failure to comply with information governance law could lead to the Council incurring costs from fines from the ICO / court or work to recover from information

security incidents including loss of data and cyber-attacks.

- 5.3 **Human Resources** – Yes. Good information governance requires staff to be trained and supported through appropriate policies, procedures, training and guidance.

## **6 Implementation Plan**

N/A

- 6.1 **Timetable for Implementing Decision:**

N/A

- 6.2 **Lead Officer**

N/A

- 6.3 **Reporting Progress**

N/A

- 6.4 **Communications Plan**

N/A

## **7 Consultation and Engagement**

N/A

## **8 Appendices and Background Papers**

N/A

## **9 Contact Officer**

- 9.1 **Name:** Andrew Dixon  
**Position:** Employment Law Manager  
**Email address:** [Andrew.dixon@redcar-cleveland.gov.uk](mailto:Andrew.dixon@redcar-cleveland.gov.uk)  
**Telephone number:** 01642 444519



Governance Committee	Relevance to Remit of Committee	Officer Lead	25-Jul 2022	26-Sep 2022	28-Nov 2022	06-Feb 2023	13-Mar 2023	24-Apr 2023
<b>Internal Audit and Assurance Functions - Veritau</b>								
Internal Audit work programme – progress reports	Internal Audit is a statutory service under the Accounts and Audit Regulations 2015 and PSIAS. An authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes.	Veritau						
Internal Audit 22/23 work programme consultation		Veritau		X	X		X	
Internal audit 2022/23 indicative work programme		Veritau				X		
Internal Audit and Assurance year end report		Veritau		X				X
Counter Fraud framework update		Veritau			X			
<b>External Audit Functions - Mazars</b>								
Annual Audit Strategy Memorandum	External auditors in the public sector give a statutory independent opinion on public bodies' financial statements and comment on the conduct of their financial affairs and the management of performance and resources.	GB/CD						X
Audit Completion Report		GB/CD			X		X	
Auditor's Annual Report, including the Value for Money review and final audit completion certificate		GB/CD					X	
Audit Progress Report		GB/CD		X		X		X
<b>Governance Functions</b>								
Review of Financial Procedure Rules	An authority must ensure that it has a sound system of internal control covering the effective exercise of its functions, the achievement of its aims and objectives, the effective financial and operational management of the authority; and the effective management of risk.	PW/RD						X
Review of Contract Procedure Rules		AN						X
Review of Treasury Management Policies & Update		PW/RD				X		
Review of Accounting Policies & Update		PW/RD						X
CIPFA Financial Management Code Review								X
Review of RIPA return		CS			X			
Annual Insurance Update		VS		X				
Risk Management and risk register update		VS			X			X
Annual Ombudsman Letter - (stage 3 complaints)		VS			X			
Annual Business Continuity Policy		VS						
Information Governance - annual assurance report	AD				X			
<b>Financial Statements</b>								
Draft Statement of Accounts (Full & Summary)	An authority must ensure that it has .... effective financial management.	RD	X					
Acceptance of the Statement of Accounts		RD			X			
Acceptance of the Annual Governance Statement	A statement of accounts prepared by an authority must be prepared in accordance with the Accounts & Audit Regulations; and use proper practices.	AP					X	
Agreeing the Letter of Representation		PW					X	
Director & Committee Assurances		PW					X	
Recommendation to opt in to the Public Sector Appointments Authority		RD						
Progress review of Annual Governance Statement		AP		X				X
<b>Committee Cycle &amp; Deadlines</b>								
Meeting Dates			25-Jul-22	26-Sep-22	28-Nov-22	06-Feb-23	13-Mar-23	24-Apr-23
Agenda Despatch		DB	14/07/22	15/09/22	17/11/22	26/02/23	02/03/23	13/04/23
Final Reports		ALL						
Pre Committee Meeting		Chair						
Pre Agenda Meeting (Officer)		JS						
Draft Reports		ALL						