



SPECIAL GOVERNANCE COMMITTEE
MONDAY, 13 MARCH 2023 AT 10.00 AM
CIVIC CENTRE, RIDLEY STREET, REDCAR, YORKSHIRE, TS10 1TD

CONTACT

Mr David Boville
01642444617
2 March 2023

CIRCULATION

Councillors C Morgan (Chair), S Waterfield (Vice-Chair), B Ayre, B Clarke, C Gallacher, S Holyoake, G Jeffery, I Nightingale, L Quartermain, V 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 Mr 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:

Mr David Boville,
Civic Centre
01642444617
david.boville@redcar-cleveland.gov.uk



Governance Committee Questions

Date of Meeting _____

Question submitted by _____

Agenda item	Para Ref	Question



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A G E N D A

	<u>Pages</u>
1. Apologies for Absence.	
2. Declarations of Interest.	
3. Internal Audit and Counter Fraud Progress Report. (Veritau)	4 - 25
4. Assurance Statements - 2021/22.	26 - 41
5. Draft Auditor's Annual Report 2021/22 Audit. (MAZARS)	42 - 65
6. Follow Up Letter to the Audit Completion Report 2021/22 Audit. (MAZARS)	66 - 80
7. Acceptance of the Audited Statement of Accounts for 2021/22 as at 31 March 2022.	81 - 100
(Please note that for convenience, appendix 2 of this report will be circulated separately).	
8. Acceptance of the Annual Governance Statement.	101 - 136
9. Any items the Chair certifies as urgent.	



Member Report

Internal Audit and Counter Fraud Progress Report

Public

To:	Governance Committee	Date:	13.03.23
From:	Managing Director (Head of Paid Services)	Decision type:	For information
Portfolio:	Resources	Forward Plan Reference:	
Priority:	All Priorities		

HEADLINE POSITION

1 Summary of report

- 1.1 The report provides an update on internal audit and counter fraud work undertaken to date in 2022/23.

2 Recommendation

- 2.1 It is recommended that the Governance Committee notes the progress of and outcomes from internal audit and counter fraud work to date, in 2022/23.

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 work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), CIPFA guidance on the application of those standards in Local Government and the CIPFA Statement on the role of the Head of Internal Audit.
- 3.3 Fraud is a significant risk to the public sector. Annual losses are estimated to exceed £51.8 billion in the United Kingdom. Councils are encouraged to prevent, detect and deter fraud in order to safeguard public finances.
- 3.4 The purpose of this report is to provide Members with an update on audit reports issued, counter fraud activity and other work completed since the last update report to this committee. It also provides an update on ongoing work.

Internal audit progress report

- 3.5 The internal audit progress report is contained in annex 1. It reports on progress against the internal audit work programme. This includes a summary of current work in progress, revised internal audit priorities for the year, completed work, and follow-up of previously agreed audit actions. We are currently on track to complete our planned level of work during the year.

Counter fraud progress report

- 3.6 The counter fraud progress report is contained in annex 2. It reports on progress against the counter fraud work programme. A range of work is detailed including activity to promote awareness of fraud, work with external agencies, and information on the level of fraud reported to date.
- 3.7 Counter fraud work has helped the Council identify £25.8k for recovery. The team has completed 17 investigations in the year to date. Twelve cases are ongoing.
- 3.8 In November, an awareness campaign took place to promote the counter fraud team's contact details with the public. Information about anti-bribery and corruption was issued to staff in December.

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 Not relevant for the purposes of the report.

7 Appendices and background papers

7.1 Annex 1 – internal audit progress report March 2023
Annex 2 – counter fraud progress report March 2023

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

INTERNAL AUDIT PROGRESS REPORT 2022/23

Date: 13 March 2023

Annex 1





BACKGROUND

- 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.
- 2 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), CIPFA guidance on the application of those standards in Local Government and the CIPFA Statement on the role of the Head of Internal Audit.
- 3 The internal audit work programme was agreed by this committee in April 2022. The plan is flexible in nature and work is being kept under review to ensure that audit resources are deployed to the areas of greatest risk and importance to the Council.
- 4 The purpose of this report is to update the committee on internal audit activity up to 28 February 2023.



INTERNAL AUDIT PROGRESS

- 5 Work is underway on a range of audits across Council directorates. A number of new audits have commenced including direct payments, home to school transport and energy management.
- 6 We have brought a number of audits close to completion, however it has been difficult to finalise work due to delays in receiving responses and required information and as a result some expected finish dates have been pushed back. However, we expect these audits to be completed soon.
- 7 We have completed a number of pieces of grant work certification since the last report to this committee including the Teacher Training Partnership grant, Green Homes grant and Adult Weight Management grant.
- 8 One audit is currently at draft report stage. A summary of internal audit work currently underway, as well as work finalised in the year, is included at appendix 1.
- 9 The work programme, showing current priorities for internal audit work, is included at appendix 2. Alongside the work in the 'do now' and 'do next' categories are indicative timescales for when work commenced or is expected to commence, and projected dates for final reports to be produced. These timescales may be subject to change, for example if work priorities change as a result of ongoing risk assessment and work planning.
- 10 The programme includes a number of audits in the 'do later' category. The internal audit work programme is designed to include all potential areas that should be considered for audit in the short to medium term, recognising that not all of these will be carried out during the current year

(work is deliberately over programmed). We are currently assessing which of these audits will be included as a priority for audit in 2023/24 alongside any new and emerging audit areas identified as part of our continuous audit planning process.

- 11 Overall, we are on schedule to complete planned work during 2022/23. We will continue to meet with senior officers on an ongoing basis to discuss current risks and agree priorities for audit.
- 12 One audit report has been finalised since the last report to this committee in November 2022. A summary of the findings from the audit are included at appendix 3.
- 13 Appendix 4 lists our current definitions for action priorities and overall assurance levels.



FOLLOW-UP OF AGREED ACTIONS

- 14 All actions agreed with services as a result of internal audit work are followed up to ensure that underlying control weaknesses are addressed. A summary of the status of actions being followed up is included at appendix 4.

APPENDIX 1: 2022/23 INTERNAL AUDIT WORK

Audits in progress

Audit	Status
Project management	In progress
Performance management and data quality	In progress
Benefits & Council Tax support	In progress
Council Tax and NNDR	In progress
ICT strategy and governance	In progress
Home to school transport	In progress
Energy management	In progress
Direct payments	In progress
Recruitment of foster carers	In progress
Schools themed audit – School's Financial Value Standard	In progress
Commercial property rentals	In progress
Payroll – mileage claims	Draft report issued

Final reports issued

Audit	Reported to Committee	Opinion
Schools audit – governance	July 2022	Reasonable Assurance
ICT asset management	July 2022	Substantial Assurance
Emergency planning	July 2022	Reasonable Assurance
Main accounting	September 2022	Substantial Assurance
Debtors	September 2022	Substantial Assurance
Adult Social Care debt	September 2022	Reasonable Assurance
Working from home	September 2022	Reasonable Assurance
Members' ward allowances	September 2022	Limited Assurance
Homecare	November 2022	Substantial Assurance
Creditors	November 2022	Substantial Assurance
Payroll – IR35	November 2022	Limited Assurance
Supplier relief	March 2023	No Opinion Given

Other work in 2022/23

Internal audit work has been undertaken in a range of other areas during the year, including those listed below.

- A review of grant claims including the Bus Service Operators Grant, Tees Valley Combined Authority grants, Teacher Training Partnership grant, Green Homes grant, Adult Weight Management grant and claims relating to Scambusters.
- A review of returns completed by the Council for the Supporting Families scheme.
- A review of grant claims for Covid-19 support including Track & Trace and the Contain Outbreak Management Fund
- An investigation into highways related issues at Saltburn.
- An ongoing pilot of assurance mapping to review how the Council receives assurance on its risks from various sources including internal audit. This has included workshops with a number of service areas.

APPENDIX 2: CURRENT PRIORITIES FOR INTERNAL AUDIT WORK

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish
Corporate & cross cutting			
Category 1 (do now)			
Project governance and management	Key assurance area. Work is essentially complete. However, we are waiting for responses to final queries before the draft report can be issued.	April 2022	March 2023
Performance management and data quality	A key assurance area reflecting its significant contribution to the achievement of Council objectives. We've undertaken initial work, including provision of support and advice to officers. However, the service have requested that further work is scheduled after April 2023. We are discussing a potential start date with officers.	tbc	tbc
Procurement & Contract Management	Key assurance area.	March 2023	June 2023
Interests, gifts, hospitality	Follow-up of the previous audit which was given a limited assurance opinion. It was agreed that follow up would commence after January 2023 to allow the actions agreed after the audit to become fully operational.	February 2023	April 2023

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish
Category 2 (do next)			
Financial planning and resilience	To focus on budget management and implementation of savings plans.	March 2023	July 2023
Category 3 (do later)			
Governance and decision making Workforce planning Corporate complaints Insurance Strategic planning Risk management Partnerships HR Information governance Health & safety	These areas continue to be a consideration for audit in the short to medium term but are lower priority than other work included in the do now and next categories. We will re-evaluate their priority as part of the planning process for the 2023/24 audit work programme.		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish
Business continuity			
Financial / Corporate systems			
Category 1 (do now)			
Payroll – mileage claims	Duplicate payments were identified as an issue in a previous audit. The latest audit report has been issued in draft. There have been delays in obtaining a response from the service.	May 2022	March 2023
Council Tax/NNDR	This audit is a key financial system and has a high inherent risk. Fieldwork has been completed and a draft report will be issued shortly.	August 2022	March 2023
Benefits and Council Tax Support	This audit is a key financial system and has a high inherent risk. Fieldwork has been completed and a draft report will be issued shortly.	August 2022	March 2023
Payroll	Payroll is a key financial system with a high inherent risk. The audit will commence once the audit of mileage claims is finalised.	March 2023	June 2023
Energy rebate scheme	A review of the implementation of the government’s energy rebate scheme. The start date of the audit has been pushed back to enable us to complete other audit work.	March 2023	June 2023
Category 2 (do next)			
Main accounting	This audit is a key financial system and has a high inherent risk.	April 2023	July 2023

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish
VAT accounting	This is an area that has not been reviewed for some time.	April 2023	July 2023
Treasury management	This is an area that has not been reviewed for some time.	April 2023	July 2023
Category 3 (do later)			
Capital accounting and assets	The audit will be considered for inclusion in the 2023/24 work programme.		
ICT			
Category 1 (do now)			
ICT Strategy and governance	Key assurance area and not reviewed in previous 2 years. Fieldwork is complete and a draft report will be issued shortly.	September 2022	March 2023
Category 2 (do next)			
None			
Category 3 (do later)			
ICT risk management	Priorities for further ICT audits will be discussed with officers in early 2023.		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish
ICT information security Cyber security ICT change management Digitalisation and automation			
Operational audits			
Category 1 (do now)			
Home to school transport	Raised as a priority area for review by the DMT. Now underway.	January 2023	May 2023
SEN Place Planning	Raised as an area for review by the DMT. There have been delays in starting work due to personnel changes within the service.	March 2023	July 2023
Direct payments	Significant risk area and raised as a potential area for review by the Governance Committee. Now underway.	January 2023	April 2023

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish
Energy management	Emerging national risk. Now underway.	December 2022	April 2023
Recruitment of foster carers	Raised as a priority area for review by the DMT and is an increased risk nationally. Now underway.	January 2023	May 2023
Schools themed audit – School’s Financial Value Standard	There have been changes to the requirements relating to related party transactions for schools and this will be considered as part of the audit. The work includes visits to four schools, most of which have been completed.	November 2022	March 2023
Commercial property rentals	This has emerged as an area of risk in discussion with the Chief Accountant. The original scope has been widened to include other areas relating to commercial property rentals including maintenance.	February 2023	April 2023
Category 2 (do next)			
Recruitment & Retention	This is an increasing risk for the Council, particularly in Children’s and Adult Services. The audit will include the use of agency staff.	April 2023	July 2023
Public health governance	This has not been reviewed for some time. Fieldwork commenced in February.	February 2023	May 2023

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish
Category 3 (do later)			
Domestic abuse Environmental health Homelessness Special Educational Needs Contracts and commissioning Highways and fleet management Planning Economic Development Waste management	These areas continue to be a consideration for audit in the short to medium term but are lower priority than other work included in the do now and next categories. We will re-evaluate their priority as part of the planning process for the 2023/24 audit work programme.		

APPENDIX 3: SUMMARY OF KEY ISSUES FROM AUDITS FINALISED SINCE THE LAST REPORT TO THE COMMITTEE

System/area	Opinion	Area reviewed	Date issued	Comments / Issues identified	Management actions agreed
Supplier relief	No Opinion Given	A review of the transactions provided by the Council's leisure provider in order to obtain supplier relief during the Covid lockdowns.	1 March 2023	We were broadly satisfied with the spend over the period concerned, however there were some items for the Council to verify.	None.

APPENDIX 4: AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

Audit opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Opinion	Assessment of internal control
Substantial assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

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Priorities for actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

APPENDIX 5: FOLLOW UP OF AGREED AUDIT ACTIONS

Where weaknesses in systems are found by internal audit, the auditors agree actions with the responsible manager to address the issues. Agreed actions include target dates and internal audit carry out follow up work to check that the issue has been resolved once these target dates are reached. Follow up work is carried out through a combination of questionnaires completed by responsible managers, risk assessment, and by further detailed review by the auditors where necessary. Where managers have not taken the action they agreed to, issues are escalated to more senior managers, and ultimately may be referred to the Governance Committee.

Actions completed

A total of 11 action have been completed since the last report to this committee in November 2022. A summary of the priority of the 11 completed action is included below.

Actions agreed		Actions agreed by directorate				
Priority of actions	Number of actions agreed	Priority of actions	Resources	Adults & Communities	Children & Families	Growth, Enterprise & Environment
1	0	1	0	0	0	0
2	8	2	1	7	0	0
3	3	3	3	0	0	0
Total	11	Total	4	7	0	0

Actions Outstanding

A total of 19 actions with original due dates that have passed are still outstanding. A summary of the priority of these actions is included below.

Actions agreed		Actions agreed by directorate				
Priority of actions	Number of actions agreed	Priority of actions	Resources	Adults & Communities	Children & Families	Growth, Enterprise & Environment
1	0	1	0	0	0	0
2	10	2	1	9	0	0
3	9	3	4	3	0	2
Total	19	Total	5	12	0	2

Of the 19 actions outstanding 16 have had a revised date agreed. The remaining 3 actions are currently being followed-up.

Actions outstanding for more than 6 months (Priority 1 and 2)

Seven priority 1 and 2 actions have currently been outstanding for longer than 6 months beyond the agreed implementation date. These all relate to the 2020/21 audit of volunteers which has been previously reported to this committee. A corporate lead was identified for the work (the Governance Director) and a further revised date of 31 March 2023 has been agreed in order for work to be completed to meet the requirement of the actions.

COUNTER FRAUD PROGRESS REPORT 2022/23

Date: 13 March 2023

Annex 2





BACKGROUND

- 1 Fraud is a significant risk to the public sector. The government estimates that the taxpayer loses up to £51.8 billion to fraud and error in public spending every year¹. Financial loss due to fraud can reduce a council's ability to support public services and cause reputational damage.
- 2 Veritau delivers a corporate fraud service to the Council which aims to prevent, detect and deter fraud and related criminality. We employ qualified criminal investigators to support departments with fraud prevention, proactively identify issues through data matching exercises, and investigate any suspected fraud. To deter fraud, offenders face a range of outcomes, including prosecution in the most serious cases.
- 3 The purpose of this report is to update the Governance Committee on counter fraud activity up to date.



FRAUD MANAGEMENT

- 4 In November 2022, a fraud awareness campaign took place during International Fraud Awareness Week. Veritau publicised a web article via social media that provided details on how to report suspected fraud.
- 5 A campaign to raise awareness of the council's anti-bribery and anti-money laundering policies took place in December. Officers were reminded of the risks of money laundering and bribery, and their responsibility to report concerns.
- 6 A new Whistleblowing Policy was approved by the Governance Committee in February 2023. The policy sets out how the Council will respond to whistleblowing reports, clarifies who is protected by the Public Interest Disclosure Act 1998, and provides guidance for managers on responding to reports of whistleblowing. Veritau will work with relevant council officers to raise awareness of the policy, and offer training to staff.



MULTI-AGENCY WORK

- 7 The National Fraud Initiative (NFI) is a large-scale data matching exercise that involves all councils and several other public sector bodies in the UK. Central government oversight of the NFI has now transferred to the new Public Sector Fraud Authority. Matches from Council data uploaded in November 2022 have begun to be released. To date, the exercise has produced 3000 matches to review. These will be undertaken by the counter fraud team and relevant council service areas.

¹ Fraud and Error (Ninth Report of Session 2021/22), Public Accounts Committee, House of Commons

INVESTIGATIVE WORK

- 8 The counter fraud team has received 31 referrals of potential fraud. These relate to council tax support, business rates, adult social care funding and the misuse of a disabled parking badge. Referrals have been made by members of staff, the National Fraud Initiative, and the public.
- 9 To date, 17 investigations have been completed, and a further 12 are ongoing. Investigative work has identified a total of £25.8k for recovery by the Council. This includes £20.2k of underpaid business rates, £3.1k relating to adult care fees, and £2.5k of incorrectly obtained covid-19 grant funding. A warning has been issued to a business owner who incorrectly obtained business rates relief as a result of having multiple retail premises. One internal investigation has been completed, and two are ongoing.
- 10 Members of the public can contact Veritau directly to report fraud on 0800 9179 247, or email counter.fraud@veritau.co.uk.



Member Report

Report to: Governance Committee

Report from: Director of Finance - Section 151 Officer

Portfolio: Resources

Report Date: 13 March 2023

Decision Type: Information Only

Forward Plan Reference: N/A

Council Priority: All

HEADLINE POSITION

1.0 Summary of report

1.1 As part of their External Audit process, Mazars are required under International Auditing Standards to ask management and those charged with Governance about the arrangements the Council have put in place to:

- Prevent and detect fraud
- Comply with laws and regulations, and
- Provide assurance over the going concern status of the Council (i.e the Council will continue to remain in existence for at least the next 12 months).

Mazars consider the Governance Committee to be those charged with Governance, in line with the scheme of delegation in the Constitution.

1.0 Recommendation

It is recommended that Governance Committee:

- a) fully endorses and confirms the Committee's assurances and declarations made to the External Auditors (Mazars) for 2021/22, as signed, in draft, on behalf of the Governance Committee by the Chair (see Appendix 1); and
- b) Notes the assurances that the Director of Finance (Section 151 Officer), as the Council's Chief Finance Officer, is making on behalf of Directors, senior management and the Council in respect of the following:
 - i. Request for Declarations 2021/22 (see Appendix 2).
 - ii. Letter of Representation 2021/22 (see Appendix 3).

DETAILED PROPOSALS

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

1.2 Strong financial governance is the foundation of the Council's ability to deliver the entirety of the Corporate Plan. The Council has articulated its vision through the Corporate Plan and set out its actions in its delivery plan. Whilst we are operating in challenging financial climate it is key that our resources are focussed on the agreed priorities of the Council in a sustainable way.

1.3 What options have been considered

1.4 The Governance Committee are required to meet these recommendations set out in section one and two of the report, in order to accompany the Committee's approval of the financial statement of accounts and annual governance statement at the same meeting.

5.0 Impact Assessment

5.1 Climate Emergency – None

5.2 Health and Safety – None

5.3 Social Value – None

5.4 Legal – The declarations and letters of representation included in the appendices fulfil the Council's obligations required of it by Mazars in respect of their external audit of the 2021/22 Annual Statement of Accounts.

5.5 Financial – The assurances provided link to the financial information provided to members and wider stakeholders as part of the budget setting process, the maintenance of a medium-term financial plan, the monitoring arrangements in place to manage financial performance on a quarterly basis and the production of the annual Statement of Financial Accounts.

5.6 Human Resources – None

6.0 Implementation Plan

6.1 Timetable for Implementing Decision: Approval provided at Governance Committee on 13 March 2023

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

6.3 Reporting Progress – Governance Committee will receive separate reports on

13 March 2023 relating to the external audit and approval of the 2021/22 Financial Statements by Mazars and the Section 151 Officer. Governance Committee will also be required to consider and approve the finalised Annual Governance Statement.

6.4 Communications Plan – Relevant statutory notices, appendices to this report, audited financial statements for 2021/22, and the 2021/22 annual governance statement will be uploaded onto the Council’s website once the required approvals have been provided for these documents.

7.0 Consultation and Engagement

In arriving at assurances now presented to the Governance Committee through both the Committee’s declaration and the Chief Financial Officer’s Declaration, along with the assurance given through the Letter of Representation, appropriate checks and balances have been undertaken with the Council’s Monitoring Officer, the Chief Internal Auditor and the Chief Accountant by the Council’s Chief Finance Officer.

8.0 Appendices and Background Papers

Appendix 1 – Governance Committee Declarations 2021/22

Appendix 2 – Chief Finance Officer Declarations 2021/22

Appendix 3 – Letter of Representation 2021/22

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



Appendix 1

Redcar & Cleveland Borough Council
Resources Directorate
Redcar & Cleveland House
Kirkleatham Street
Redcar
Yorkshire
TS10 1RT

Mr G Barker
Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Our Ref: GC/DD/21
Your Ref:
Contact: Cllr Carole Morgan Direct
line: 07717 423757

Date: 12 January 2023

Dear Gavin,

Redcar and Cleveland Borough Council – Assurances – 2021/22

In response to your letter, seeking the Governance Committee's assurances in respect of arrangements the Council has put in place:

- to prevent and detect fraud;
- to comply with applicable law and regulations; and
- The appropriateness of the going concern assumption.

I am responding, in my role as Chair of the Governance Committee and have based my response on the letter sent in respect of the management's response to the Management Process and Arrangements request, and following discussions with the Council's Director of Finance – Phil Winstanley.

The Governance Committee and the members of this Committee take a full and active role in the governance of the Council's affairs, through both attendance and involvement at the Committee itself and the attendance and participation in training & development events.

We have a developed work programme and a decision-capture process, which tracks both the business we are due to see and the conclusions and responses to committee generated issues and concerns.

Arrangements for preventing and detecting fraud

The Committee is made aware of both the internal audit and external audit plans on a regular basis during the financial years, and their aim of highlighting the risk of fraud and corruption. These updates and plans provide the Committee with assurance that these work programmes are in place and have a level of focus on potential fraud and corruption.

The Committee considers and approves the Council's approach to fraud prevention with the Anti-Fraud, Bribery and Corruption Policy (including Fraud Response Plan) covering the requirements of the Bribery Act 2010 and 2012 and reviews these arrangements on at least a biennial basis with the current version dated September 2022. The quarterly Internal Audit Progress Report highlights any areas of concern

that have been identified, as a result of work carried out during that quarter, whereby the Committee seeks explanations as to their incidence and level and the remedial action being taken.

Details of special investigations into alleged fraud and/or corruption are provided in the annual counter fraud report to the Committee. The Director of Finance has briefed me on the summary position on all counter-fraud investigations undertaken during the year.

The Annual Internal Audit Report on Counter Fraud to the Governance Committee sets out the work undertaken on anti-fraud and corruption, anti-fraud activity and the number of whistleblowing incidents (in connection with our Whistleblowing Policy). It also highlights the areas where the risk of fraud or corruption is likely to be higher based on both national and local information and statistics. Governance Committee are given the opportunity to assess these risks and seek clarity on the measures to manage these risks.

All Councillors and senior officers are required to complete declarations about related party transactions and conflicts of interest. Material transactions and conflicts of interest are disclosed in the 2021/22 Statement of Financial Accounts. None of the returns received give rise to potential or known instances of fraud. The draft statement of financial accounts sets out the organisation's related party and group company arrangements, and sets out the transactional arrangements, where relevant and material, with these related parties.

The Committee oversees the management arrangements for identifying and responding to the risks of fraud and corruption via its scrutiny of the Internal Audit and Assurance Plan, and the risk contained within the plan; through its ongoing scrutiny of the delivery and outcomes of Internal Audit work; and through its scrutiny and acceptance of the year- end summary of Internal Audit work in the Internal Audit Annual Report, plus the annual report on Anti-Fraud and Corruption activity.

I am not aware of any significant breaches in internal control during 2021/22. I have been provided assurances during 2021/22 that key financial systems have been given substantial levels of assurances as part of the cyclical internal audit review programme.

The Committee receive a detailed explanation of the basis on which the draft and final statement of financial accounts for 2021/22 have been prepared. The Committee are briefed on balances in the Balance Sheet which are subject to critical judgement on the basis of which these balances have been estimated and prepared, and sources of estimation uncertainty. I am not aware of any accounting entries which are false or intentionally misleading.

The Committee, nor myself, have been made aware of any organisational or management pressure to meet financial or operating targets, nor have any incentives been offered in order to create such a situation.

Arrangements to comply with Relevant Law and Regulation

The Committee receives for consideration the draft Annual Governance Statement, which amongst other things confirms that the legal implications of all decision making are detailed in all decision-making reports. These items are highlighted to Members during their initial training, and subsequent consideration and acceptance of the Draft Annual Statement of Accounts. Other reports issued to members through Cabinet

and Full Council also consider the legal issues relating to decisions required by Members and Officer.

No instances of non-compliance with relevant laws or regulation have been highlighted to the Committee in 2021/22 or subsequently.

With regards to litigation and claims, officers have made a provision in the accounts for any claims (including their estimated value and timing), and where appropriate would refer to any material contingent liabilities in a separate disclosure note in the accounts (although there are no such contingent liabilities to report as at 31 March 2022).

Appropriateness of the Going Concern assumption

Management of the Medium-Term Financial Strategy (MTFS) and the annual budget setting process is reported to all Councillors on a quarterly basis, through the quarterly financial reporting cycle. The Committee are made aware of the main linkages between the year-end outturn report and the Financial Statement of Accounts. Governance Committee is also required to review and recommend for approval the annual capital and treasury strategies for the Council.

The MTFS is refreshed annually and is also reviewed on a quarterly basis with updates for predicted changes or variations to assumptions. The results of these updates are formally notified to all Council Members, including Governance Committee Members, through the annual budget setting and cyclical financial reporting process.

The Council was fully involved in the detail surrounding the specific outcomes it wants to achieve, and the resource it can devote, through the Budget Setting Process for 2022/23 and the Council set a sustainable budget based on this work, with quarterly financial performance reports been reported to Cabinet. I am also satisfied that Officers have put in place an assurance framework that will provide ongoing monitoring reports to the Governance Committee on the processes and governance of the Council.

Conclusion

Having considered arrangements for ensuring the Governance Committee are properly appraised of issues relating to anti-fraud and corruption controls, arrangements to ensure we operate legally and in adherence with regulation and, are at all times a going concern, I am content there are no further matters which, as Chair of the Governance Committee, I should be bringing to your attention.

As always please do not hesitate to contact me should you wish to discuss any of these matters further.

Yours sincerely



Cllr Carole Morgan
Chair of the Governance Committee



Appendix 2

Redcar & Cleveland Borough Council
Resources Directorate
Redcar & Cleveland House
Kirkleatham Street
Redcar
Yorkshire
TS10 1RT

Mr G Barker
Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Our Ref:
Your Ref:
Contact: Phil Winstanley
Direct line:

Date: 10 January 2023

Dear Gavin,

Redcar and Cleveland Borough Council – Chief Finance Officer Declarations 2021-22.

In response to your letter dated 1 November 2022, and as part of your overall aim to seek senior management assurances in respect of arrangements, the Council has put in place to:

- prevent and detect fraud,
- comply with applicable law and regulations; and
- demonstrate the appropriateness of the going concern assumption.

Arrangements for preventing and detecting fraud

The Committee receives and considers the annual Audit Strategy Memorandum produced by Mazars, which summarises the external audit approach, highlights significant audit risks and areas of key judgement. Whilst the Committee understands that this work is undertaken fundamentally for Mazars' purposes, Governance Committee is able to draw assurances from this planned work and its successful completion.

The Council has outsourced its internal audit requirements to a jointly-owned limited company Veritau - Tees Valley (part of the Veritau Group), in partnership with Middlesbrough Borough Council. Veritau provides a consistent and dedicated level of multi-disciplinary specialist capacity to support the Council in identifying fraud risks, providing timely solutions to mitigate against the risk of fraud and draw upon the skills and best practice of other local authorities who Veritau partner with.

The Governance Committee are asked to approve an annual internal audit and counter fraud work programme each year by Veritau for which updates are regularly provided to the Committee, on a Quarterly basis. The internal audit work programme produced by Veritau includes, amongst other areas, a review of internal controls in major systems that produce the Statement of Accounts, including controls aimed at preventing material fraud. During 2021/22, Veritau provided an opinion of substantial assurance around the Council's arrangements for payroll, the main accounting system, creditors and debtors.

This work programme and the plans of internal audit are central to the Committee's ability to identify and respond to the risk of fraud and corruption. The Council worked with Veritau to

ensure our Anti-Fraud, Bribery and Corruption Policy (covering the requirements of the Bribery Act 2010 and 2012) were refreshed in September 2022. The Whistleblowing Policy clearly sets out how to raise a concern and the safeguards available to whistle-blowers. This Policy is to be updated and approved by Governance Committee on 6 February 2023. These arrangements are set out in the 2021/22 Annual Governance Statement and highlight the need to be vigilant around the threat of fraud.

On 25 July 2022, Veritau produced their Annual Report of the Head of Internal Audit and Annual Counter Fraud Report, which was presented to the Governance Committee. This set out the work undertaken on areas relating to fraud prevention, investigating allegations of fraud and/or corruption, developing fraud awareness with staff in key service areas, providing counter-fraud support with the payment of Covid-19 Business Support Grants, and outlining the work done to support the National Fraud Initiative. Furthermore, the overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating at the Council was that it provides Reasonable Assurance.

Veritau presented an updated and refreshed Counter Fraud Framework to Governance Committee on 26 September 2022 which included a review of the Fraud Risk Assessment and the Counter Fraud Strategy Action Plan. The Fraud Risk assessment identified a range of updated risks and the mitigation measures which have been put in place to manage these risks, which are reviewed on a regular basis by Veritau and include the following “Red-rated risks”:

- Social Care Fraud
- Council Tax and Business Rates Fraud
- Council Tax Support Fraud
- Creditor Fraud
- Cyber crime
- Procurement Fraud

Veritau has previously undertaken a review of the paper and online application forms, used by customers, in relevant services recommending amendments as appropriate to ensure these application processes have sufficiently robust declarations to facilitate participation in national and local data matching exercises and investigation of suspected fraudulent applications or representations.

Veritau have worked with our Communications and Finance Team to publicise new and additional channels to report fraud for both members of staff and the public.

Veritau supports the Council in completion of the National Fraud Initiative and considers investigation of any matches that identify potential fraud after initial review.

To maintain an awareness of the importance of preventing and detecting instances of fraud and corruption, Veritau raises awareness of any fraud alerts and risks. Fraud alerts are issued in response to regional and national intelligence. Veritau also provide a proactive service which assesses the controls in relation to national fraud risks and co-ordinate the National Fraud Initiative data matching exercise on behalf of the Council.

During Quarter 4 of 2021/22, the Council's Workforce Development Team and Accountancy Staff rolled out an externally-procured Fraud Awareness Online Learning Module which is accessible for all Council staff to complete and refer to for guidance.

The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the Council's internal audit charter. At least once every five years, internal audit working practices must be subjected to an external assessment to ensure the continued application

of professional standards. Veritau's last external assessment was undertaken in November 2018 and concluded that Veritau generally conforms to the PSIAS. This is the top rating.

As detailed above, the Committee receives regular report on counter fraud activity through the reporting line described above, and the Annual Counter Fraud Report (including incidences of suspected fraud, bribery or corruption investigated during the year). The most recent annual counter fraud report highlighted examples of intelligence sharing between counter fraud teams, at a regional and national level.

Governance Committee oversees the management arrangements for identifying and responding to the risks of fraud via its scrutiny of the internal audit and counter fraud work programmes, and the risks identified within them. The Counter Fraud Framework provides a risk assessment of the dangers of fraud to the Council and sets out the mitigation measures which are in place to manage these risks. It also helps to inform the internal audit work programme.

On an annual basis, the Council's Accountancy Team guide the Governance Committee through the fundamental elements of the Council's draft and final Statement of Accounts, including the basis of any amendments to the final accounts. The Governance Committee is provided with and may request access to relevant awareness training and explanation of the basis upon which the Statement of Accounts are prepared, the content & relevance of the primary financial statements and the various supporting disclosure notes which provide enhanced information regarding the financial position of the Council. This information is provided in advance of the Committee being required to approve the Financial Accounts and provides adequate opportunity for the Committee to challenge the financial information and the basis of valuation & its presentation. The Council has robust arrangements in place to manage and monitor expenditure and income. These controls are underpinned by suitable arrangements for the segregation of duties, clear processes and procedures around the employment of staff, the procurement of suppliers & other third parties and the management of income streams. These controls ensure that the financial statements are not materially misstated due to fraud and error.

All Councillors and Senior Officers are required to complete and return, where appropriate, declarations about any related party transactions and conflicts of interest linked to their Council business and outside interests, which are reviewed and followed up where necessary to do so. The Related Party Disclosure Note provides details of any related party transactional arrangements which are of interest and relevance for disclosure. The guidance associated with this process is based on Officers and Members acceptance and understanding of our Code of Conduct and is referenced in the Annual Governance Statement. As far as I am aware, none of these declarations suggest any relationships or transactions identified give rise to fraud or a risk of fraud.

Following the impact of the Cyber Attack on the Council in February 2020, where the Council temporarily lost access to multiple systems across its services, Mazars' IT-Security Specialists conducted a thorough investigation and have been able to provide assurances of the arrangements put in place by the Council to reduce the likelihood of the security breach at the time of the attack; the speed of which these services were recovered following the attack; and finally the efficient implementation of additional controls to reduce the likelihood and impact of a subsequent cyber-security breach. Mazars have recently undertaken a further review of the IT General Controls in relation to cyber-security, with a particular focus on Financial Systems and have not identified any areas of concern.

Veritau have provided information and awareness to Council staff on Cyber Security risks during 2021/22.

Furthermore in relation to Cyber Security within the Council, we have successfully bid for LGA funding to train IT staff in industry recognised Cyber Security Qualifications. The training will help staff with the knowledge and skills they need to help prevent cyber-attacks.

Systems are in place to provide greater protection from internet threats, including:

- Scanning of files as they are downloaded or uploaded to look for malicious contents
- Blocking of specific sites or categories of websites
- Better reporting and identification of risky behaviour by users.

Microsoft Safelinks have been introduced for use in emails to check the safety and validity of any link before a user clicks on it. The Council also has ongoing phishing training for all staff with access to email, where staff are sent test phishing emails and are given extra guidance and training if they click on the links within them.

I am aware of 37 reports of alleged fraud in 2021/22. Three of these reports were passed to the relevant external agency. One other report was determined not to have identified wrongdoing after initial assessment. During the year 20 cases were concluded, which included the following outcomes.

- Four applications for Covid-19 business grant funding were blocked preventing incorrect payments of £15.6k. A further £9.6k was recovered from a business that was found to be ineligible to receive a grant payment.
- A report was received relating to outstanding care fee contributions of £8.1k for a customer who had passed away and the next of kin was non-responsive to Council contact. Investigation confirmed location of potential assets of the deceased's estate to facilitate the Council taking forward recovery action.
- A council tax discount of £350 was removed following an investigation.

The remaining cases either found no issue, or did not involve misappropriation of money (e.g. the misuse of disabled parking badges). Thirteen cases remain under investigation, and four are pending allocation to an investigation officer.

I am not aware of any inappropriate organisational or management pressure, to meet financial or operating targets.

Arrangements for complying with Relevant Law and Regulation.

The submission of the Annual Statement of Accounts to the Committee includes a covering report setting out the main issues within the accounting statements and includes confirmation from Officers that the Accounts have been completed with reference to all relevant legislation as set out in the CIPFA Code of Practice.

The Council have arrangements in place for identifying and responding to changes in law and regulation including receiving updates from the Lawyers in Local Government Association staff attending training courses to understand the operational impact of these law changes, the Council having a subscription to Lexus Nexus which provides relevant updates on law and officers within relevant service teams having responsibilities for maintaining an awareness for changes in law in their particular service areas. The legal implications of all decision-making in reports to Full Council, Cabinet and other Committees are set out in reports and delegated authority decision-making processes.

The Committee receives for consideration the draft Annual Governance Statement, which amongst other things confirms that the legal implications of all decision-making are detailed in all decision-making reports. The Committee will satisfy itself that all relevant laws and regulations are complied with through its awareness of the Annual Governance Statement

and the legal processes set out within it; and through its consideration and acceptance of the annual draft Statement of Accounts. No instances of non-compliance with relevant laws or regulation have been highlighted to the Committee in 2021/22 or subsequently.

As part of the completion of the Statement of Accounts, management will consider all relevant litigation and claims, and whether they require disclosure by way of provision, contingent liability, or notes to the Accounts. This consideration includes making an informed estimation of the likely financial and cost implications of such litigation and claims where required. These items are highlighted to Members during their consideration and acceptance of the Annual Statement of Accounts.

The reasonableness of management's estimation of such assessments is the subject of discussion between officers and external auditors during the annual Statement of Accounts audit. Our current understanding is that you have no issues with our assessment of such claims and potential litigation.

Appropriateness of the Going Concern assumption

On 8th December 2021, DLUHC published the findings of a financial review undertaken by CIPFA, and as a condition of receiving financial support to fund the 2020 Cyber Attack. In the review the Council were found to be well governed and financially stable in the short to medium term, with good prospects for the longer term. The Council has worked to implement the findings of the review, including maintaining a focus on preserving reserves to an adequate level, the maintenance of a 5-year MTFS (for revenue and capital budgets) and scenario planning for various aspects of financial planning.

The Council presents a report to Governance Committee, as part of the consideration of the 2021/22 draft Statement of Accounts, setting out the basis of our judgements around these Accounts, including our conclusion that the accounts are prepared on a 'going concern' basis.

The Council puts in place various controls to manage and control its revenue and capital expenditure budgets, and the processes to define, update, and amend as necessary the Medium Term Financial Strategy (MTFS) of the Council. The Council's latest approved medium term financial strategy was approved on 24 February 2022 and covers the period from 2022/23 to 2026/27. The Council submitted proposals for an MTFS, which covers a five year-year period between 2023/24 and 2027/28, which was considered by Cabinet on 20 December 2022. The Council has in place arrangements to monitor the financial position of the Council's budgets and reports through the corporate financial reporting process, on a Quarterly basis. These arrangements are also reported to Governance Committee and other relevant Council Committees, including Resources Scrutiny Committee, in order to ensure they are aware of the main issues and elements of assurance that relate to the quarterly forecasts for the revenue and capital outturn position, and the ongoing MTFS assumptions being reported.

The Council has processes in place to measure, set and monitor assumptions made in the MTFS, the basis on which Driving Change Reductions have been calculated and approved for inclusion within the MTFS, and the basis of our assumptions around future income levels across a range of income streams. Mazars are also sighted on how we are monitoring the delivery of our annual and future savings targets through the Driving Change programme on a Quarterly basis as part of financial budget monitoring and reporting arrangements.

The Council's MTFS is refreshed annually, is updated for predicted changes in Government funding mechanisms, variations to assumptions around council tax base & prices, business rate levels and their associated collection rates. The Council also assess the likely impact of

future specific grant funding streams at an individual and aggregated level, to assess the net financial impact of these changes. The results of these updates are formally notified to all Council Members, through the annual budget setting and reporting process, where relevant reports include updated financial assumptions for Members' information and decision-making approval.

I can confirm that there have been no significant issues raised with Cabinet members during the 2021/22 financial year in respect of financial performance or variances in activity, other than those highlighted in the quarterly financial reporting to Scrutiny and Improvement Committees, and Cabinet. The financial impact of the Covid-19 Pandemic was regularly and fully assessed, and the Council have undertaken regular returns to Central Government to support an assessment of the financial impact of the Pandemic.

There have not been any major concerns around internal control notified to Cabinet. I therefore remain of the view that the arrangements for financial performance, maintenance of effective internal controls (including segregations of duties), and levels of monitoring activity within the Council are sufficiently robust and controlled.

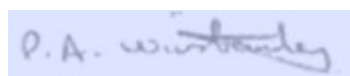
As you are aware, the Council undertakes regular quarterly reporting of its financial performance to Cabinet and Scrutiny, with a summary of these reports to the Members of the Governance Committee provided where necessary. These reports cover the latest financial positions in relation to revenue budgets, the capital programme, treasury management arrangements, prudential indicators; and any requested budget virements. These reports provide an update to the financial position of the Council and provide updates on the measures put in place to continue the effective financial management of the Council. The latest report presented to Cabinet on 20 December 2022 was the Quarter 2 financial update for 2022/23 which indicated an improvement to the forecast overspend reported at Quarter 1 on 27 September 2022 and outlined a number of measures to mitigate the overspend pressures been experienced. The Outturn report for 2021/22 was presented to Cabinet on 21 June 2022 and showed the Council had achieved a broadly breakeven position. The Council was also able to increase its level of usable revenue reserves to £42.719 million (from an opening position of £31.707 million in 2021/22) to ensure it bolstered its financial resilience.

Conclusion

Having considered arrangements for ensuring the Governance Committee are fully aware of issues relating to anti-fraud and corruption controls, arrangements to ensure we operate legally and in adherence with regulation and are, at all times, a going concern; I am content there are no further matters which, as Chief Finance Officer, I should be bring to your attention.

Please contact me should you wish to discuss any of these matters further.

Yours sincerely



Phil Winstanley
Director of Finance (Section 151 Officer)



Appendix 3

Redcar & Cleveland Borough Council
Corporate Director for Resources
Redcar & Cleveland House
Kirkleatham Street
Redcar
TS10 1RT

Mr G Barker
Director
Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Our Ref:
Your Ref:
Contact: Phil Winstanley
Direct line: 01642 771144

Date: 13th March 2023

Dear Gavin,

Redcar and Cleveland Borough Council - audit for year ended 31 March 2022 – Letter of Representation (Draft)

This representation letter is provided in connection with your audit of the financial statements of Redcar and Cleveland Borough Council (the Council) for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance (Section 151 Officer) that I have taken all the necessary steps to make myself aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Director of Finance (Section 151 Officer) for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law. I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Charges on assets

All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is, therefore, not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2021/22 in relation to the Council's PFI schemes that you have not been made aware of. In August 2022, the Council served notice to voluntarily terminate its PFI arrangement in relation to Office Accommodation. A non-adjusting post-balance sheet event has been included in the financial accounts presented to Governance Committee on 13 March 2023, to recognise this.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

I am satisfied that the going concern assumption remains appropriate and that no material uncertainty has been identified.

To the best of my knowledge there is nothing to indicate that the Council will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the financial statements.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Phil Winstanley
Director of Finance (Section 151 Officer).
(Chief Finance Officer)

Auditor's Annual Report **DRAFT**

Redcar and Cleveland Borough Council
– year ended 31 March 2022

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- 03 Commentary on VFM arrangements
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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Redcar and Cleveland Borough Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales

01

Section 01: **Introduction**

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Redcar and Cleveland Borough Council (the Council) for the year ended 31 March 2022. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders. **This is a DRAFT report, as we have not yet issued our audit opinion. The report will be finalised when we issue our audit opinion, anticipated in March 2023.**

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



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Opinion on the financial statements

We issued our audit report on **XX March 2023**. Our opinion on the financial statements was unqualified. **[At this stage, we anticipate being able to issue an unqualified opinion, subject to finalisation of remaining issues.]**



Value for Money arrangements

In our audit report issued **[not yet issued]** we reported that we had completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Council's arrangements.



Wider reporting responsibilities

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. No such correspondence from electors has been received.



Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received. This means we are unable to issue our audit certificate formally closing the audit for the 2021/22 financial year.

Introduction

Audit of the financial statements

Commentary on VFM arrangements

Other reporting responsibilities and our fees

02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2022 and of its financial performance for the year then ended. Our audit report, issued on **XX March 2023** gave an unqualified opinion on the financial statements for the year ended 31 March 2022. **[At this stage, we anticipate being able to issue an unqualified opinion, subject to finalisation of remaining issues.]**

Our Audit Completion Report, presented to the Council's Governance Committee on 28 November 2022 provides further details of the findings of our audit of the Council's financial statements. This includes our conclusions on the identified audit risks and areas of management judgement, internal control recommendations and audit misstatements identified during the course of the audit. We also issued a follow up letter on **XX March 2023** which concluded on all outstanding matters. **[At this stage, we anticipate being able to issue the follow up letter, subject to finalisation of remaining issues.]**

Qualitative aspects of the Council's accounting practices

We reviewed the Council's accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Council Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 15 July 2022, in advance of the revised statutory deadlines and were of a good quality. The accounts were supported by good quality working papers and we received full co-operation from the Finance team in responding to our queries on a prompt basis.

Significant difficulties during the audit

We had positive co-operation from management throughout the audit and we would like to thank management for their assistance, courtesy and patience during our work.

The Council undertook additional valuations of some elements of property, plant and equipment to ensure that the balance as at 31 March 2022 was not materially misstated. This resulted in material amendments to the financial statements and required significant additional audit work.

The completion of the audit was delayed for two reasons, neither of which was under the control of management or the audit team:

- **Pension fund assurance letter** – this was not received from the auditor of the Teesside Pension Fund until **xx xxxxx 2023**; and
- **Infrastructure** – guidance was not issued to authorities by CIPFA until 11 January 2023, which then enabled us to finalise our approach and then carry out the detailed audit testing that was required.

03

Section 03:

Commentary on VFM arrangements

3. Commentary on VFM arrangements

Overall summary

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3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:



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



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



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

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators where applicable
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risks that we have identified and the work we have done to address those risks on page 10.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**

We make these recommendations for improvement where we have identified a significant weakness in the Council arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**

We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

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3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11	No	No	No
 Governance	14	No	No	No
 Improving economy, efficiency and effectiveness	17	No	No	No

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3. Commentary on VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services

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3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

How the Council identifies significant financial pressures that are relevant to its short and medium-term plans

The Council approved its Medium Term Financial Plan (MTFP) in February 2021 covering a 2 year timeframe from 2021/22 to 2022/23 and set out a balanced position without reliance on general fund reserves and with a focus on financial resilience and sustainability. In 2022/23, the Council produced a 5 year MTFP which covers the period from 2022/23 to 2026/27. This addresses one of the key recommendations in the 2021/22 CIPFA Local Government Finance Review of the Council. We will consider this plan in more detail in our work for 2022/23 but like many public sector bodies, there are significant inflationary and demand risks going forward.

The 2021/22 MTFP considered income and funding, service investment and the 'Driving Change' efficiency improvements and recognised the risks and uncertainties facing the Council. The MTFP was supported by consultation with the public, staff, partners and other stakeholders. Our review of the MTFP and associated assumptions identified no evidence of significant weaknesses in arrangements.

Budgets are assigned to operational managers who monitor budgets on a monthly basis and this is reported to Members on a quarterly basis. At the end of the financial year, the Council reported a marginal underspend of £0.245 million. The level of total usable reserves available to the Council as at 31 March 2022 was £42.717m which is an increase of £11m on the balance in 2020/21 of £31.7m. The final reserves position includes circa £8m due to income received in advance of spending and £4m set aside to mitigate significant financial risks from inflation and demand pressures. The level of general fund balances has been set at £5.593m which is the agreed minimum level of 5% of the Council's net budget provision.

Our work did not identify any evidence to indicate a significant weakness in arrangements..

How the Council plans to bridge funding gaps and identifies achievable savings

As noted above, the 2021/22 MTFP recognised the risks and uncertainties facing the Council in terms of cost pressures, future funding arrangements, volatile income levels and potential variations in the costs of the delivery of demand led services in particular.

The Council's 'Driving Change' efficiency improvements programme seeks to improve productivity & efficiency, streamline operations, and promote financial resilience and sustainability. The MTFP set out a savings plan of £4.77m over the 2 years of the MTFP with £2.086m planned for 2021/22 (later adjusted to £2.679m).

The outturn report showed that £2.004m (75%) was classified as being achieved. The £0.675m not achieved was mainly in relation to the costs of delivering children's social care and the financial pressures experienced in home to school transport. Whilst the Council did not fully meet the target, this does not represent a significant weakness in arrangements given the amounts involved.

The council utilises scenario planning in the development of its budget and MTFP, and has undertaken to progress this further as per the recommendation in the CIPFA Local Government Review Report.

The MTFP has been updated for 2022/23 and we will consider this in more detail as part of our work on our 2022/23 value for money commentary. As at quarter 2 (September 2022), the Council is reporting an anticipated year-end overspend of £5.517 million largely due to significant overspends in Children and Families (£6.75m). Work is ongoing to reduce the overspend at year end. Currently reserves are £42.3m so there is some financial resilience to withstand the additional pressures in the short term but a number of reserves are held for future contractual commitments.

The 'Driving Change' efficiency improvement programme sought to deliver savings of £2.85m in 2022/23 and £0.6m of this total has been achieved at quarter 2. £1.75m is still in progress with £0.5m outstanding. This is incorporated into the overall projected revenue position.

The Capital Investment Plan is financed in such a way that the costs to the Council's budgets of any borrowing linked to the financing of the capital programme can be spread over the life of the asset being invested in. The CIPFA Report highlighted that the Council holds considerable amounts of debt and the financing costs of this present a considerable revenue cost. The Council has a significant capital investment programme to support its strategy and will need to carefully manage this.

The CIPFA Report concluded that the Council was well governed and financially stable in the short to medium term, with good prospects for the longer term.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

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

A new corporate plan 'Our Flourishing Future' has been developed for 2021 to 2024. The current set of Corporate Priorities fall under the following four areas:

- Tackling Climate Change and Enhancing the Natural Environment;
- Meeting Residents' Needs;
- Improving the Physical Appearance of the Borough and Enhancing Prosperity; and
- Investing for the future.

The annual business planning process provides the link between finances and the Council's strategic and statutory priorities. The plan drives the resourcing and financial plans for the organisation, resulting in the annual budget and the MTFP. The financial plans recognise the ongoing pressure the Council faces and the impact on its reserves strategy. In-year monitoring reports detail the pressures faced by the Council and highlight where mitigating action is required.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How the Council ensures that its financial plan is consistent with other plans

The MTFP report considers the implication on the workforce, health and safety, social value, legal, financial and equality and diversity.

A Treasury and Capital Strategy is updated on a regular basis and sets out how the Council manages risks and benefits associated with cash-flow, treasury management and borrowing. The strategy sets out how the Council can fund a multi-year capital programme in a financially sustainable way using a series of prudential indicators to monitor the position. This is supported by 'Business Case' documentation to ensure capital projects go through a robust business case documentation process and the revenue implications of capital investment decisions are fully considered and form part of the MTFP planning and budget setting process. These plans and strategies are considered and approved by Council alongside the MTFP and budget decisions each year.

Risk management is also considered in terms of financial plans and risk-registers are regularly updated and reported to the Cabinet throughout the year.

Cabinet consider the updated financial position at various stages throughout the year and allows for Member scrutiny and challenge. The MTFP for 2021/22 and 2022/23 were considered in February 2021 and February 2022 respectively.

The annual budget process includes reviewing the Council's reserves. We confirmed a review was completed in 2021/22 and 2022/23 to ensure funding set aside remains in line with strategic and statutory priorities. This is evidenced in the outturn reports presented to the Cabinet during the financial year.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How the Council identifies and manages risks to financial resilience

The financial plan recognises the risks and uncertainties facing the Council in terms of cost pressures, future funding arrangements and potential variations in the costs of the delivery. Our review of the financial plan shows that there is no evidence that assumptions are unrealistic or that reserves have dropped below the minimum levels required for a Council of this size and complexity with the risk it faces.

The Council has an established risk management framework and the Governance Committee receives regular risk management updates.

Financial reports contain evidence of a summary of the Council's performance, detailing significant variances and providing adequate explanation of the causes.

We are satisfied that there are saving plans in place and that the Council has a good record of delivering on its plans in previous years.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

3. Commentary on VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks

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3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

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

Redcar and Cleveland Borough Council has approved and adopted a Code of Corporate Governance, consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government.

The Council has a Risk Management Framework that is used and monitored by a Risk Management Group and is periodically reviewed, amended and approved by the Governance Committee. The Corporate Risk Register is reviewed, updated and challenged regularly and presented to Directorate Management Teams and the Executive Management Team and reported to the Governance Committee and Cabinet. This creates a framework within which risks are identified and evaluated prior to mitigation plans being put in place.

The Council has outsourced its internal audit and counter-fraud services to Veritau which is a partnership that specialises in local government provision. The Internal Audit Plan and Head of Internal Audit Report is reviewed by the Council's Governance Committee. As detailed in the plan, the Council uses a risk-based approach to determine the priorities of the internal audit activity, consistent with the Council's objectives. The Head of Internal Audit Opinion was presented to the Governance Committee meeting in July 2022 and the overall opinion on the framework of governance, risk management and control operating at the Council is that it provides 'Reasonable Assurance'. This means that there is a generally sound system of governance, risk management and control in place but some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

A Counter Fraud Plan is in place which is reported to the Governance Committee. We confirmed there is also regular reporting to the Governance Committee on counter fraud activities, including fraud investigations where applicable.

The Council has a framework of written procedures and controls. Central to these are detailed rules for decision making, and rules of procedure, including; a Constitution, Standing Orders, Contract Procedure Rules, Financial Regulations, Member, Officer Codes of Conduct, and a Whistleblowing Policy. The Council has a dedicated counter fraud response and strategy which includes fraud governance and arrangements to prevent, detect and pursue fraud including Anti-Fraud, Anti-Bribery & Anti-Corruption Policies.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

The MTFP recognises the risks and uncertainties facing the Council in terms of future cost pressures, funding arrangements, volatile income levels and potential variations in the costs of the delivery of demand led services in particular. The MTFP is supported by consultation with regional local authority partners and other stakeholders.

We have reviewed the budget setting arrangements through observation and discussions with officers. No matters have been identified indicating a significant weakness in arrangements. Overall the Council is aware of the financial pressures it faces.

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

The Council produces monthly budget monitoring reports to all budget holders and regular meetings are held with finance to discuss variances. Quarterly forecasts of outturn reports are presented to the Cabinet. The Chief Finance Officer is a member of the Executive Management Team and attends Cabinet Member meetings.

There is a delegated framework of financial accountability, including named cost centre managers assigned to cost centres, identified senior managers to be responsible for financial performance in each service area and a financial reporting timetable for monitoring. The 'Driving Change Programme' helps to ensure the Council identifies and implements efficiency and savings opportunities, which is reviewed on a quarterly basis.

Each Directorate Management Team is provided with dedicated Finance Managers resource to provide advice and support on business decisions. Finance Managers also take regular consolidated budget monitoring information into the Directorate Management Teams for review

The financial statements were submitted for audit in 2021/22 on 15 July 2022, ahead of the revised statutory deadline. Whilst we did identify some material errors in respect of valuations of property, plant and equipment, our audit of the financial statements did not identify any matters to indicate a significant weakness in the integrity of the financial information reported or the process for preparing the accounts. It is our experience that management takes action to address audit matters in a timely and appropriate manner.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

Redcar and Cleveland Borough Council's governance arrangements are set out in its Constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent, and accountable to local people. This includes the financial procedures and the scheme of delegation. The Council ensures that appropriate legal, financial, and other professional advice is considered as part of the decision-making process and observes specific requirements of legislation.

Cabinet reports, other member reports and delegated decision-making powers are reviewed by Finance and financial implications assessed and reviewed. Reports specifically consider risk, legal issues, finance matters and other key corporate decision-making factors. Equality impact assessments are produced to assess relevant key decisions and policies, which are published on the Council's website. All other key documents and decision-making reports are accessible via the Council's website, except where they address confidential issues and there is a reason for them to be exempt

At Scrutiny & Improvement Committees, members review progress against objectives through discussion with Cabinet Members and through quarterly monitoring of financial and performance information. Joint Scrutiny Committee arrangements are also in place with neighbouring authorities to provide oversight and accountability reflecting more collaborative approaches to service design and delivery, particularly in relation to health matters, and the key functions of the Tees Valley Combined Authority. There are also monitoring and reporting arrangements in place to assess performance against priority objectives – undertaken on a quarterly basis.

A Forward Plan of Key decisions is maintained, refreshed and published on a regular basis. Key decisions taken are published on its website giving notice of key decisions to be taken by Cabinet and Council and those taken using delegated powers. The Public has the opportunity to ask questions at Cabinet and Council.

A Governance Committee is maintained which is independent of the Cabinet and Scrutiny Committees. The Governance Committee is tasked with ensuring, amongst other things, good stewardship of the Council's resources and promoting proper internal control by reviewing the Council's control systems and monitoring its compliance with legislation, relevant standards, codes of practice and policies.

The Council publishes the outcomes from external reviews and inspections from regulatory bodies and monitor the implementation of any recommended actions through the performance management framework.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How the Council monitors and ensures appropriate standards are maintained

The Council has in place a framework of written procedures and controls. Central to these are detailed rules for decision making and rules of procedure, including; the Constitution, Standing Orders, Contract Procedure Rules, Financial Regulations, Member, Officer Codes of Conduct, and a Whistleblowing Policy. The Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent, and accountable to local people.

There are established codes of conduct for members and officers and a register of gifts and hospitality which is available on the Council's website and supported by relevant training. Related parties are recorded on an annual basis and disclosed in the statement of accounts as well as senior officer remunerations. In addition, there is confidential reporting of unethical behaviour (whistle-blowing, anti-fraud, anti-money-laundering and anti-bribery policies) in place. Procurement and financial-decision-making are subject to levels of segregation of duty to ensure approvals and oversight of financial activity are maintained.

The Annual Governance Statement (AGS) is published and reviews the effectiveness of the Council's Governance Framework.

The Council appoint an independent person to support the complaints process in accordance with the requirements of the Localism Act 2011 and publish an Annual Complaints Report which considers the outcome of the complaints raised during the year.

There is regular reporting of treasury management activity that details the Council's investments, cash and borrowing positions. The Treasury Management Strategy was approved ahead of the 2021/22 financial year and sets out the Council's measures against which treasury management can be assessed. The measures include those designed to mitigate risk to the Council's finances. Our work did not identify any evidence to indicate a significant weakness in arrangements.

The Council provides training to members and officers through a Member Induction Programme and Corporate Induction process.

There were no areas of significant non-compliance with the CIPFA Code in terms of the financial statements.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services

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3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

How financial and performance information has been used to assess performance to identify areas for improvement

Directorates have well established processes for reviewing financial and performance information and using this to inform areas for improvement. Key volume and price metrics are monitored by Directorates to inform service and improvement planning – such as adult social care, waste management, children in social care, children with disabilities and home to school transport. Performance information is shared with Cabinet Members and Scrutiny. Performance information relating to cost drivers and demand pressures are used to inform budget setting & monitoring.

Areas of adverse performance feed into the Council's risk register where relevant. Our review of the risk register and attendance at Governance Committee confirms that it covers areas such as secondary school attainment and performance, excessive pupil exclusions, balancing the MTFP, costs for waste treatment.

The Leadership Team receive financial information to inform the budget setting process. Key members of the Executive Management Team are involved in decision-making around service investment and the 'Driving Change' savings. Quarterly financial reports to Cabinet provide an assessment of the financial outturn position for the year in relation to approved budgets for Revenue, Capital and usable reserves, Collection Fund and Treasury Management issues and also progress against the 'Driving Change' plans.

The Council has undertaken reviews through the CIPFA Financial Resilience Index, to assess and compare various indices on levels of expenditure of key service areas as a proportion of the revenue budget. Other benchmarking data provided by Arlingclose and Pixel is also referenced and used. The Council also undertake internal benchmarking exercises to assess areas such as council tax and business rate collection.

Services are involved in service improvement initiatives such as:

- Launching a new website and an improved customer relationship management system;
- Launching a new all age carer strategy and commissioned care service;
- Newly installed LED streetlights with a 60% reduction in consumption – above the 50% target. This means 1,300 tons of carbon have been saved, more than the 1,200 tons expected; and
- Opening of the new No Wrong Door Hub to support children on the edge of care and in the Council's care.

Corporate performance against key performance indicators is reported to Cabinet. Our review identified no evidence of a significant weakness in arrangements.

The Council's financial performance is reported on a regular basis to Cabinet with details of the financial position along with rationale for any changes and factors to be taken into account. Reports include HR implications and impact assessments.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How the Council evaluates the services it provides to assess performance and identify areas for improvement

Scrutiny Committees receive performance updates and feedback from inspections. Cabinet receive updates on the socio-demographic position of the Borough via a Health of the Borough Report. There is a range of benchmarking undertaken including Children and Families for example which take part in a North East Benchmarking comparison regarding elements of children in care performance. Other areas of benchmarking are undertaken in adult social care and waste services. The Council uses information from Pixel as well as the CIPFA resilience index for example. Our review has not identified any significant weaknesses in arrangements.

Performance monitoring takes place across Directorates and this is supplemented with surveys across the Council's stakeholders to help improve performance. The Cabinet monitor performance during the year against the Corporate Plan and monitor the non-financial key performance information.

Based on our review of a sample of reports and our understanding of the reporting framework, there is sufficient monitoring, reporting and overall scrutiny of both the performance and the financial position of the Council.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

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

The Council works with local communities, volunteers, voluntary and community organisations, the NHS, care providers, police, probation, schools, colleges and universities, businesses and many more. Some examples include:

- Children and Young People’s Partnership Board - a local multi agency meeting of statutory partners, including the police, education and health with responsibility for delivery of the council’s early help strategy to support children and young people;
- South Tees Safeguarding Children’s Partnership - a multi-agency partnership between Middlesbrough Council, Redcar & Cleveland Council, Tees Valley Clinical Commissioning Group (CCG), and Cleveland Police. It aims to support and enable local organisations and agencies to work together in a system which places the child at the heart of the process, with a key focus on both improving practice, and enhancing outcomes for children and their families.
- ‘Moor to Restore’ programme - a partnership between the North York Moors National Park Authority and Forestry England. This intends to develop plans to not only seek to restore peatlands but focus on sustainability for the natural environment;
- Working in Partnership with other North East councils to procure an ‘Energy from Waste’ Facility which is expected to be located in the Borough and will go live from 2026;
- Participation in the Tees Valley Combined Authority arrangements at both Member and Officer Member level, connecting with all aspects of TVCA policy / investment. Participation in joint scrutiny arrangements with neighbouring authorities in the South Tees and Tees valley areas;
- No Wrong Door Partnership with North Yorkshire County Council to develop more robust arrangements for supporting children in care to optimise a child’s development and outcomes.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How the Council commissions or procures services, how the Council ensures this is done in accordance with relevant legislation, professional standards and internal policies, and how the Council assesses whether it is realising the expected benefits

Key commissioning and procurement decisions are taken by staff to ensure compliance with legislation, professional standards and internal policies. A legal and procurement team provides advice on all relevant procurement decisions. A brokerage team support the procurement of adult and children social care packages.

As a response to the pandemic, the Council established a new Brokerage function for Adult Social Care packages.

The Council has outsourced key functions to provide resilience and cost efficiencies. For example, revenues and benefits and internal audit and counter-fraud services.

There is evidence that the Council has arrangements in place to ensure procurement is in accordance with relevant legislation, professional standards and internal policies.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

04

Section 04:

Other reporting responsibilities and our fees

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4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data,

We have not yet received group instructions from the National Audit Office for 2021/22 therefore we are unable to issue our audit certificate until this work is completed.

4. Other reporting responsibilities and our fees

Fees for work as Redcar and Cleveland Borough Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Governance Committee in March 2022. Having completed our work for the 2021/22 financial year, we can confirm that our fees (excluding VAT) are as follows:

Area of work	2020/21 fees	2021/22 fees
Planned fee in respect of our work under the Code of Audit Practice	£95,733	£95,733
Recurring increases in the base audit fee arising from regulatory pressures (as reported in the 2019/20 audit)	£14,382	£14,382
Additional fees in respect of the new VFM approach (recurring, as agreed from the 2020/21 audit)	£10,000	£10,000
Additional fees in respect of new ISA540 requirements in relation to Accounting estimates and related disclosures (recurring, as agreed from the 2020/21 audit)	£4,400	£4,400
Additional fees for the valuation of property, plant and equipment (extended valuations process during this year's audit)	£nil	£6,300
Additional fees in respect of the Council's infrastructure (additional work required in relation to the national issue in this year's audit)	£nil	£4,900
Total fees	£124,515	£135,715

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4. Other reporting responsibilities and our fees

Fees for other work

In 2021/22 the Council has engaged Mazars for the following audit-related assurance services:

- Housing Benefit Assurance - £12,950 plus VAT (£11,775 in 2020/21); and
- Teachers Pension Assurance - £4,840 plus VAT (£4,400 in 2020/21).

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28 February 2023

Dear Members

Update/conclusion of pending matters – Audit Completion Report 2021/22

As required by International Standards on Auditing (UK), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report dated 7 November 2022 and including any other matters arising since that date.

The outstanding matters and the conclusions we reached are detailed below:

Matter	Update/conclusion reached	Status
Significant risk: Management override	<i>Management Override:</i> Our work is complete. We have no further matters to report.	Complete
Significant risk: Net defined pension liability valuation	We reported in November 2022 that we were unable to complete our work on pensions as we were waiting for assurances from the pension fund auditor. These would normally have been expected to be received by the end of November 2022. Unfortunately, at the point of drafting this letter (28 February 2023), we have still not received the assurance letter from the pension fund auditor, and we are advised that they require ‘another few weeks’ to complete their internal processes and report to us.	Still awaiting Pension Fund auditor assurance

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We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.

VAT number: 839 8356 73

Matter	Update/conclusion reached	Status
	<p>The pension fund auditor has advised us that their work has identified an overstatement of assets of 0.7% compared to the figure included in the actuary's report. If this is confirmed, this would be an overstatement of £5.165m, which is below performance materiality of £5.854m, so management have advised us that they wish this to be treated as an unadjusted misstatement.</p> <p>Members should note that this does not represent an unexpected loss in pension fund assets, it just means that the value of assets was overstated by this amount in the estimates made by the actuary at the year end of 31 March 2022. The value of assets is just a snap shot at a point in time, based on various market factors and actuarial assumptions.</p> <p>In the context of the Council's share of total pension fund assets of £738m, the overstatement is not material in both qualitative and quantitative terms.</p> <p>For the purposes of progressing our audit, we have assumed that this will be the eventual outcome and we have reflected this unadjusted misstatement in the Summary of Misstatements in Appendix 1.</p> <p>Please note that when we receive the pension fund auditor assurance letter we will need to fully consider its contents and evaluate the implications for our audit. If additional issues arise we will discuss these with officers and take any action that is appropriate to resolve them. We will write a further letter to Members of the Governance Committee should this happen.</p>	Still awaiting Pension Fund auditor assurance
Significant risk: Valuation of land and buildings	<p>We identified a potential material variance to the land and building valuations disclosed as at 31 March 2022 and the Council subsequently undertook further valuations to resolve this issue.</p> <p>This has resulted in the following amendments to the financial statements, as included in Appendix 1:</p> <p>Dr Land and buildings: £19,454k</p> <p>Cr Revaluation Reserve: £16,764k</p> <p>Cr CIES £2,690k</p> <p>This also impacts on the Movement in Reserves Statement, the Cashflow Statement and a number of other notes in the financial statements including note 19 (property, plant and equipment) and note 34 (revaluation reserve).</p> <p>We have discussed with management that where valuations are undertaken with an effective date of 1 April, it is important that a review is undertaken before the year end to ensure that the</p>	Complete

Matter	Update/conclusion reached	Status
	<p>valuations are still materially accurate as at the balance sheet date of 31 March.</p> <p>We identified one error of £41k from our testing of the April 2021 valuations due to using the incorrect floor areas for one building. On extrapolation over the population, this was estimated at £243k which is a non-trivial extrapolated error. As this is not material and is an estimation, management has decided not to adjust.</p> <p>We also identified two further errors from our testing of the March 2022 valuations totalling £276k due to using the incorrect BCIS indices for floor areas. As this was not included in the accounts until after our audit, no amendment is required. However, care should be taken to ensure that the correct BCIS indices are used for any future valuations.</p>	Complete
Infrastructure	<p>As the Council is aware, there has been a national issue in relation to accounting for infrastructure which has impacted on every local authority related entity with material infrastructure balances.</p> <p>The issue identified that there was insufficiently detailed information available to allow local authorities to demonstrate the material accuracy of the gross carrying value of infrastructure assets. Specifically, the information deficits related to the type of assets held within the infrastructure balance, their useful lives and whether or not any capitalised expenditure was incurred to replace existing components.</p> <p>Members should note that this issue was entirely technical in nature and it did not impact on the resources available to the Council or the level of usable reserves held by the Council.</p> <p>A statutory override was put in place by Government to address the information deficits and CIPFA guidance was issued to allow authorities to disclose net infrastructure and not disclose gross infrastructure and gross depreciation in the financial statements. The statutory override made it clear that adjustments were not required to previous infrastructure balances even where errors may have existed.</p> <p>The Council has adopted the statutory override in full. The Council also made amendments to the disclosures about infrastructure in the financial statements, as required by the guidance, but the figures relating to infrastructure have not been amended.</p> <p>As part of our review of the Council's application of CIPFA's "Update to the Code and Specifications for Future Codes for Infrastructure Assets (Code update)", we considered the Council's asset lives per its accounting policies for infrastructure assets.</p>	Complete – also see Internal Control section below

Matter	Update/conclusion reached	Status
	<p>We considered CIPFA Bulletin 12, which includes a commentary on the useful lives of the components of the highways network by the “UK Roads Leadership Group Asset Management Board”. The guidance includes a range of “reasonable useful lives” for different parts of the highways network which we compared to those applied by the Council.</p> <p>As part of our work, we completed a sensitivity analysis to estimate the impact on in-year depreciation using the Council’s existing asset lives compared to the reasonable asset lives provided in the CIPFA guidance. This test was completed to gain assurance that depreciation in 2021/22 is materially accurate when compared to depreciation calculated using CIPFA’s reasonable useful lives.</p> <p>Following completion of our work, we are satisfied that the Council has followed the relevant guidance when reviewing its infrastructure assets and has made the required disclosures in the financial statements.</p> <p>Our review highlighted a number of differences between the useful economic lives of some assets against those set out by CIPFA. However, we are satisfied that this does not have a material impact on the financial statements for 2021/22.</p> <p>From our analysis, we estimated that the maximum impact on in-year depreciation would be £848k, and this would be a net reduction in depreciation. We have reported this as an unadjusted misstatement in Appendix 1.</p> <p>In the context of the Council’s total depreciation of infrastructure of £6.4m, and a net book value for infrastructure of £102.846m, the potential overstatement of depreciation of £848k is not material in both qualitative and quantitative terms.</p> <p>The Council has carried out its own analysis, and plans to complete a review of useful economic lives when producing the 2022/23 financial statements.</p> <p>We support this planned approach by officers and we have made an internal control recommendation in relation to this as set in the next section of this letter.</p>	<p>Complete – also see Internal Control section below</p>
<p>Related Party Transactions</p>	<p>Our work in this area is complete. However, there were significant delays in obtaining the relevant Member declarations and therefore we have raised an internal control weakness below.</p>	<p>Complete – see Internal Control section below</p>
<p>Collection fund</p>	<p>Our work in this area is complete. There are no further matters arising.</p>	<p>Complete</p>

Matter	Update/conclusion reached	Status
Management arrangements and processes	Our work in this area is complete. There are no further matters arising.	Complete
Financial instruments	<p>Long term payables was recorded as £10,849k but should have been £4,491k. Short term payables was recorded as £45,446k but should have been £21,021k. The fair value disclosures were also amended accordingly.</p> <p>In addition, the narrative at bottom of the financial assets table shows short term debtors as £35.37m but this should be £37.862m with a credit allowance of £9.757m.</p> <p>The note has been amended.</p>	Complete
Other disclosures	<p>Some non-trivial casting errors were identified in two of the notes to the financial statements.</p> <p><i>Note 1 Expenditure and Funding Analysis:</i> Omission of £5,556k from 2020/21 for Resources and Growth line. Overall totals were correct.</p> <p><i>Note 8 Earmarked Reserves:</i> Sub-totals for 'total excluding schools and business rate relief accounting reserve' were incorrect for transfers out and transfers in for 2021/22.</p> <p>Both notes were amended.</p>	Complete
Review and closure processes, including checking the amended version of the financial statements produced by finance as a result of our audit.	We are awaiting the final version of the financial statements. Once received we will undertake our final closure procedures including a review of the management representation letter and post balance sheet events.	This will be completed at the point we are ready to issue our audit opinion

Internal Control Recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	2
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

Description of deficiency – Infrastructure Assets Useful Economic Lives – Level 2

As part of our review of the Council’s application of CIPFA’s “Update to the Code and Specifications for Future Codes for Infrastructure Assets (Code update)” we considered the Council’s asset lives as disclosed in its accounting policies and notes to the accounts.

We considered CIPFA Bulletin 12, which includes a commentary on the useful lives of the components of the highways network by the “UK Roads Leadership Group Asset Management Board”. This guidance includes a range of reasonable useful lives for different parts of the highways network which we compared to those applied by the Council.

Our review highlighted a number of differences between the useful economic lives of some assets against those set out by CIPFA. However, we are satisfied that this does not have a material impact on the financial statements for 2021/22.

Potential effects

Infrastructure asset lives may not be based on up-to-date information and may not accurately reflect the remaining life of the asset. This could result in depreciation being misstated, both in year and cumulatively in the future. In addition, it is important that asset lives are accurate to support the Council’s Asset Management’s Plans.

Recommendation

While our work has not highlighted a material difference when applying the current assets lives, we recommend that the Council reviews and benchmarks its infrastructure asset lives for 2022/23 onwards by considering data provided by CIPFA and any other data identified by the Council, to ensure asset lives reflect sector standards and all relevant information. Where differences are not justified, the Council should make changes to asset lives and hence depreciation as part of its annual review of infrastructure. If management’s assessment significantly

diverges from the range provided by CIPFA, and does not wish to change the asset lives, management should clearly document and provide relevant data to substantiate the rational for this difference.

Management comments

Agreed.

Description of deficiency – Related Party Transactions – Level 2

There were a number of Member declarations that were not completed until 2023.

Potential effects

There could be undisclosed related party transactions.

Recommendation

Members should return their declaration of interest forms as soon as possible to avoid delays in accounts preparation and audit.


Management comments


Agreed.

Status of our audit work




At the time of preparing this update letter, we anticipate being able to issue an unqualified audit opinion, without modification, on the financial statements. We plan to issue our opinion when the financial statements have been approved by the Governance Committee, and when we are in receipt of the pension fund auditor assurance letter and have fully considered and addressed any matters arising from their letter.

At the time of preparing this update letter, the following matters remains outstanding, which as we have explained will be reported at a later date:

Audit area	Status	Description of outstanding matters
Value for money commentary		We have completed our work in respect of the Council’s arrangements for the year ended 31 March 2022 and the DRAFT Auditor’s Annual Report is on the agenda for the March Governance Committee setting out our value for money commentary. We will issue the final Auditor’s Annual Report once the audit opinion has been issued.

Audit area	Status	Description of outstanding matters
WGA		<p>We have submitted the 2020/21 return but are unable to issue our audit certificate formally closing the 2020/21 audit until the National Audit Office informs us whether additional procedures are required.</p> <p>We have not yet received group instructions from the National Audit Office for the 2021/22 return but we understand this is due shortly.</p>

Status

-  Likely to result in material adjustment or significant change to disclosures within the financial statements
-  Potential to result in material adjustment or significant change to disclosures within the financial statements
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements

Our draft Audit Report is shown in Appendix 2. This highlights in red any changes from the previous version included in our Audit Completion Report. The main change is that we can now report in our audit opinion that we have completed our value for money work for the year ended 31 March 2022.

We will inform the Governance Committee of any further matters when we have completed the whole of government accounts formally closing the audit of Redcar and Cleveland Borough Council.

If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours faithfully

Gavin Barker

Gavin Barker
Director

APPENDIX 1 SUMMARY OF MISSTATEMENTS

(Changes since we issued our Audit Completion Report are highlighted in red.)

Unadjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Cr: Other long term liabilities (pension liability)				-5,165
	Dr: Unusable Reserves			5,165	
	Cr: Movement in reserves Statement		-5,165		
	Dr: Re-measurement of the net defined liability	5,165			
Overstatement of assets in the financial statements due to errors identified by the pension fund auditor. Management has determined not to amend the financial statements because this adjustment is not material.					
2	Dr: Land and buildings			243	
	Cr: Revaluation reserve				-243
We identified one error of £41k from our testing of the April 2021 valuations due to using the incorrect floor areas for one building which resulted in an understatement of valuations of land and buildings. On extrapolation over the population, this was estimated at £243k which is a non-trivial extrapolated error. As this is not material and is an estimation, management has decided not to adjust.					

3	Dr: Land and buildings			848	
	Cr: CIES Depreciation		-848		
<p>Potential overstatement of depreciation on infrastructure assets in the financial statements based on a comparison of actual depreciation against depreciation that would have been charged based on CIPFA ranges of useful asset lives. Management has determined not to amend the financial statements because this adjustment is not material.</p>					
Total unadjusted misstatements		5,165	-6,013	6,256	-5,408

Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Land and buildings			19,454	
	Cr: Revaluation reserve				-16,764
	Cr: CIES		-2,690		
<p>Amendments due to revaluation of a number of the Council's assets as at 31 March 2022.</p>					
Total adjusted misstatements		0	-2,690	19,454	-16,764

Independent auditor's report to Redcar and Cleveland Borough Council

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Redcar and Cleveland Borough Council (Council) for the year ended 31 March 2022, which comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2022 and of the Council's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2021/22.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance (Section 151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the Director of Finance (Section 151 Officer) with respect to going concern are described in the relevant sections of this report.

Other information

The Director of Finance (Section 151 Officer) is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Responsibilities of the Director of Finance (Section 151 Officer) for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance (Section 151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2021/22, and for being satisfied that they give a true and fair view. The Director of Finance (Section 151 Officer) is also responsible for such internal control as the Director of Finance (Section 151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance (Section 151 Officer) is required to comply with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2021/22 and prepare the financial statements on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Director of Finance (Section 151 Officer) is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local

Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Director of Finance (Section 151 Officer)'s incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Governance Committee, the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Governance Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Governance Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Director of Finance (Section 151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in September 2021.

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

Report on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our view we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

~~We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in December 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2022.~~

~~We will report the outcome of our work on the Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.~~

We have nothing to report in this respect.

Responsibilities of the Council

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

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the Redcar and Cleveland Borough Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our



audit work has been undertaken so that we might state to the Redcar and Cleveland Borough Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Redcar and Cleveland Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to conclude the audit and issue the certificate for the year ended 31 March 2021; and
- the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack for the year ended 31 March 2022. ~~and~~
- ~~• the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.~~

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Gavin Barker
Director
For and on behalf of Mazars LLP

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Date: *[to be confirmed]*



Member Report

Audited Statement of Accounts for 2021/22 as at 31 March 2022

Report to: Governance Committee

Report from: Managing Director (Head of Paid Service)

Portfolio: Resources

Report Date: 13 March 2023

Decision Type: For information and approval

Council Priority: All priorities

HEADLINE POSITION

1.0 Summary of report

- 1.1** Governance Committee are asked to approve the audited year-end financial accounts for the Council as at 31 March 2022, in lieu of final confirmation from the Teesside Pension Fund Auditor of their assurances to Mazars on the value of pension fund assets as at 31 March 2022. This request is based on the anticipation that there will be no further adjustments requested to correct a known misstatement on pensions. To this end, the Council's Director of Finance and the Chair of the Governance Committee will sign these accounts off, upon confirmation from Mazars, to the Council's Director of Finance, that no further adjustments are determined to be necessary for the value of pension fund assets. If any further amendments to the pension fund values are determined to be necessary, Governance Committee would need to reconvene on this matter to approve any changes from the Draft Statement of Accounts presented today. The approval is required following the near conclusion of Mazars' external audit of the financial accounts and their issuing of a Draft Audit Completion Report.
- 1.2** The Council is statutorily required by law to produce a Statement of Financial Accounts as at 31 March, on an annual basis. The Statement of Accounts provide information to stakeholders on how resources are used, the net value of all the Council's assets and liabilities and is an indicator of the financial health of the Council.
- 1.3** For the 2021/22 accounts, the Council had a legal requirement to have externally audited and approved accounts by 30 November 2022, following its publication of signed draft financial accounts which were presented to Governance Committee on 25 July 2022. However due to national issues raised on the local authority sector's accounting for infrastructure assets (primarily roads and bridges) and delays in the external audit of the Teesside Pension Fund, Mazars have been unable to achieve the 30 November 2022 deadline. The statutory deadline has also been missed by most English local authorities, so therefore the Council is not in a unique position in this respect.
- 1.4** This report seeks to update and assure Governance Committee on the quality of the financial statements, the processes adopted in respect of closing the accounts and

the confirmation of the financial position of the Council, following the external audit process.

2.0 Recommendation

2.1 That Governance Committee:

- a) Consider and approve the Statement of Accounts in accordance with the requirements of the Accounts & Audit Regulations, subject to there being no changes to the current audited Statement of Accounts for financial year 2021/22 because of any residual issues relating to the Pension Fund Audit by Ernst Young at Middlesbrough Council.
- b) Note and agree this is a conditional decision and that upon receipt of the outcome of Pension Fund Audit via Mazars:
 - (i) should a material error be discovered by the Pension Fund auditor on the Teesside Pension Fund, as at 31 March 2022, which results in any changes to the Statement of Accounts, then its approval will be referred back to the Governance Committee (by way of a Special Meeting if necessary or on the next scheduled meeting of 24 April 2023) so that those changes can be fully considered by the Committee, supported by revised final assurances if necessary; and
 - (ii) if the Pension Fund Audit does not result in any amendment to the Statement of Accounts, the Committee's approval of the current version of the Statement of Accounts will stand confirmed and the Section 151 Officer be authorised to publish them accordingly.

2.2 That Governance Committee note that the statutory requirement to have these financial accounts approved by 30 November 2022 was missed due to some outstanding valuation issues on Infrastructure Assets and Pension Fund assets & liabilities which are outside the control of the Council. The approval follows consideration of the statements of assurances provided by the Director of Finance and Chair of the Governance Committee provided in a separate report of this agenda pack and having considered Mazars' Audit Completion Report.

2.3 As part of the approval process, Governance Committee must consider the required amendments to the financial accounts highlighted in this report.

DETAILED PROPOSALS

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

3.1 This report underpins all aspects of the Corporate Plan and is an important feature of the Council's performance management framework. Effective financial management and sustainability plays an integral part in supporting the operations of the Council and the achievement of its Corporate Priorities.

4.0 What options have been considered.

- 4.1 It is a statutory requirement for the Council's Governance Committee to approve the audited Statement of Accounts, and for the Council to then publish these accounts, as soon as possible on the Council's website. If Governance Committee are unable to approve these Accounts, these issues would need to be resolved as quickly as possible after the end of the meeting. Governance Committee should note the Financial Accounts have now gone through a detailed external audit validation process since the meeting of Governance Committee on 25 July 2022, and that officers have made judgements in relation to the issues and recommendations raised.
- 4.2 The unaudited Statement of Accounts for 2021/22 have now been audited by our external auditors (Mazars). The revised accounts (set out at Appendices 1 & 2) incorporate the changes that have been agreed as part of the audit. No further changes are expected, but this remains dependent on the errors in the Teesside Pension Fund, relating to the Council remaining below levels of materiality.
- 4.3 Governance Committee can challenge the financial information presented within the audited Statement of Accounts and request further information regarding any amendments made to the accounts. Following the necessary explanations, the Committee are requested to approve the Statement of Accounts for 2021/22, note the changes made to the Financial Accounts since the commencement of the External Audit review, agree the actions to be taken as part of Mazars' Audit Completion Report and expect the Director of Finance and Chair of Governance Committee to approve these accounts once confirmation has been received from Mazars that no further amendments are required for pension fund asset and liabilities as at 31 March 2023. Any further amendments to the accounts arising from a material error in the Teesside Pension Fund would need to be reapproved by Governance Committee at the next available date.
- 4.4 The audited Statement of Accounts includes some differences to the draft accounts published in July 2022. These differences are set out in tabulated form in Mazars' Audit Completion Report.

4.5 Property, Plant and Equipment

During the external audit process, Mazars have identified a valuation issue with the Council's buildings. As part of the Council's arrangements to produce the financial statements, the Council use an in-house valuation team to value land and building assets on a five-year rolling basis. This means only certain groups of land & building assets are valued in a single financial year, but all land and building assets are valued no less frequently than once every five years. The valuation basis for a number of these buildings is based on the estimated cost of theoretically rebuilding an asset based on current price estimates. This approach is a standard way of ensuring property assets of various categories are valued on a regular basis.

- 4.6 As part of their assurance processes, Mazars have referred to their in-house valuation team, who flagged that the Council's property values are materially undervalued based on national rebuild indices, which have risen significantly in 2022 due to inflationary pressures, and therefore need to be revalued again in their

entirety as part of the external audit process. To undertake such a valuation process would have been very time-consuming and to reach a manageable compromise to this issue, the Council agreed with Mazars to revalue the most materially large value property assets and restate these in the updated Statement of Accounts presented at today's meeting. This has resulted in an overall material increase in the value of the property held by the Council.

4.7 The impact of this revaluation is £19.455 million and has a material impact on the 2021/22 financial accounts. Governance Committee should however be aware these changes do not impact in any way of the Financial Outturn Position reported to Cabinet on 21 June 2022, rather these changes are technical accounting adjustments.

4.8 The Council's value of Property, Plant and Equipment (PPE) has therefore increased by £19.455 million from £257.925 million to £277.380 million. This valuation change is deemed to be material and requires adjustments to the Statement of Financial Accounts. Further adjustments to the financial statements, arising from this revaluation, are summarised as follows:

- Movement in Reserves Statement: - a reduction in the value of negative unusable reserves from £179.382 million to £159.927 million.
- Comprehensive Income and Expenditure Account: - an increase in the bottom-line surplus on the Income and Expenditure Account, due to the revaluation in PPE assets, from £85.710 million to £105.166 million.
- Cash flow Statement – on the lines titled “Net surplus to the provision of services” and “adjustments to the net surplus on the provision of services for non-cash movements.”
- Amendments to disclosure notes arising from these changes:
 - Note 1 – Expenditure & Funding Analysis.
 - Note 4 – Assumptions made about the future and other major sources of funding uncertainty.
 - Note 6 – Adjustments between accounting basis and funding basis under regulation.
 - Note 19 – Property, Plant and Equipment.
 - Note 34 – Unusable Reserves; and
 - Notes 37 – Cash Flow Statement supporting disclosure notes.

4.9 Infrastructure Assets

Governance Committee were previously updated on this matter on 28 November 2022. During the last 18 months, concerns have been raised by the external audit sector regarding local authorities' methodology for valuing expenditure on infrastructure assets and the accumulated depreciation which is reported in their financial accounts. This is primarily due to the length of time individual components of infrastructure assets are depreciated and the way in which local authorities derecognise replaced elements of the highways network when new capital expenditure has occurred. The perceived national quality of financial reporting data on these assets is also hampered by the fact that there are perceived gaps in financial data due to the fact some of this infrastructure spend pre-dates 1994, when local authorities were statutorily required to bring historic spend on these types of asset on balance sheet and due to various cases of local government reorganisation (including for example, the reorganisation of Teesside

local authorities in 1996).

- 4.10 In the draft statement of accounts presented to Governance Committee on 25 July 2022, the Council's infrastructure asset valuation was made up of £217.8 million gross book value, accumulated depreciation of £114.9 million, and a net book value of £102.9 million. These balances include the main types of highways asset such as roads, bridges, street furniture and adopted land. The Council's accounting policies at that time were to capitalise these assets at historic cost and depreciate them over a uniform useful economic life of between 10-40 years.
- 4.11 Attempts have been made by the Chartered Institute of Public Finance and Accountancy (CIPFA) to manage these issues through a task and finish group to suggest suitable ways forward on this matter. In addition, in October 2022, DLUHC issued a consultation which sought views on a proposed statutory override to address the concerns around quality of financial reporting on Infrastructure Assets.
- 4.12 The Government have now implemented a statutory override which allows local authorities to follow an accounting treatment which supports the assumption that derecognition of replaced infrastructure assets are fully depreciated and therefore held at nil net book value. This enables local authorities to proceed to finalise their 2021/22 financial statements and will extend to March 2025, to allow a more suitable financial reporting solution to be found.
- 4.13 In January 2023, CIPFA published a detailed accounting bulletin which sets out the revised reporting requirements for local authorities who hold infrastructure assets on their balance sheet for 2021/22 and for external auditors to inform their assurance process. As a result of this guidance, some presentational amendments have been made to the financial accounts. These amendments have not resulted in a change to the net worth of the balance sheet. The guidance issued has also triggered a further detailed analysis of the Council's arrangements for reporting on infrastructure assets by Mazars.
- 4.14 The Council's Statement of Accounting Policies have been expanded to recognise that a large historic asset balance was brought onto the Council's balance sheet in 1994; elaborate in more detail on the depreciation arrangements for different categories of infrastructure asset; and clarify the method by which derecognised assets are written out of the balance sheet at the point at which there is replacement expenditure. Therefore, where the Council replaces a component of infrastructure, for the purposes of determining the carrying amount to be derecognised in respect of that component, the Council can continue to determine that the amount to be derecognised is nil.
- 4.15 The CIPFA Bulletin has also stated that councils with infrastructure assets no longer need to disclose gross historical cost and accumulated depreciation for these assets. As a result, amendments have been made to Disclosure Note 19 within the attached Statement of Financial Accounts to remove Infrastructure assets from the main table setting out the Council's valuations and accumulated depreciation for Property, Plant and Equipment on pages 86-89 of the draft statement of accounts. Additional tables have been included on pages 90 and 91 to set out the opening and closing net book values in 2020/21 and 2021/22 for Infrastructure Assets (i.e., the gross value of infrastructure assets less historical

accumulated depreciation), alongside the movements in the value of these assets for items such as annual depreciation and additional capital spend.

4.16 As part of the external audit assurance process, Mazars have closely reviewed the Council's accounting arrangements for categories of infrastructure assets (including our accounting for historical infrastructure accounting balances at the conception of the Council on 1 April 1996) and our arrangements for monitoring and categorising capital spend against CIPFA-suggested infrastructure category components. Mazars have also closely scrutinised the Council's depreciation policies for certain categories of infrastructure assets, and the application of these policies for historic spend and current arrangements. Following this review, Mazars have identified an unadjusted misstatement of £0.848 million which the Council agreed did not warrant amendment to the 2021/22 financial accounts and would be corrected as part of the arrangements for financial accounts preparation in 2022/23. No amendments therefore need to be made to the net book value of the accounts for 2021/22.

4.17 Pension Fund

Mazars continue to wait for a Pension Fund External Audit Assurance letter from Ernst Young. Ernst Young, who have identified a provisional overestimate in the value of pension fund assets of 0.7% of the value disclosed on 31 March 2022. When this is confirmed, this error will equate to £5.165 million. Whilst this is to be classed as an error in the financial accounts, it is not a sufficiently material error which triggers an amendment to the statement of financial accounts.

4.18 Inspection of Accounts

To comply with the requirements of the Local Audit and Accountability Act, members of the public and other interested stakeholders have a legally specified timeframe to ask for further information on the accounts and any supporting documentation.

4.19 The relevant dates for the inspection period for 2021/22 unaudited accounts were from 18 July to 30 August 2022. No issues or queries have been raised with officers or external auditors under this legislation which need to be brought to the Committee's attention.

5.0 Impact Assessment

5.1 Climate Emergency – There are no direct implications from this report, although aspects of the financial statements provide analysis of the sustainable use of assets. For example, the capital investment programme includes investment in new long-term assets, which either replace or create new more efficient assets from an operational and carbon management perspective, so will have a positive impact on the Council's overall carbon emissions footprint.

5.2 Health and Safety -

5.3 Social Value -

5.4 **Legal** - In accordance with the Accounts and Audit Regulations 2015, local authorities are required in 2021/22 to produce a Statement of Accounts, which has been authorised for issue by the responsible financial officer, within four months of the end of the financial year, i.e., by 31 July 2022. The Council is also required to have the accounts audited and published by 30 November 2022, which was not achieved because of delays in commencing and concluding the external audit. A note was placed on the Council's website to notify the public of this delay. Under current legislation it is required that the Council make the Statement of Accounts, i.e., the financial statements plus any supporting information, available for public inspection. The Council must also plan for the external audit of the Accounts and publish details of when and where electors of the Borough may question the Auditor on the Accounts. This period of inspection had to commence by 1 August 2022. Upon completion of the external audit of the financial statement of accounts, the Section 151 Officer of the Council is required to reissue the audited statement of accounts on the Council's website.

5.5 **Financial** - The financial accounts provide a detailed overview of the financial position and performance of the Council in the 2021/22 financial year. They are required to be produced under codified and statutory accounting legislation.

5.6 **Human Resources** -

5.7 **Equality and Diversity** –

6.0 Implementation Plan

6.1 Timetable for Implementing Decision: As set out in this report, Governance Committee are asked to consider this report alongside the Director Statement of Assurances, the External Audit Letter from Mazars, the Audit Completion Report from Mazars and the Annual Governance Statement. The final approved Statement of Financial Accounts, Annual Governance Statement and External Auditor findings will be loaded up onto the Council's website once the final confirmations have been received by Mazars on the Pension Fund Accounts position.

6.2 Lead Officer - Rob Davisworth – Chief Accountant

6.3 Reporting Progress – Mazars will provide further updates.

6.4 Communications Plan - Relevant documentation will be uploaded on the Council's website once Mazars have received their assurances on the pension fund position.

7.0 Consultation and Engagement

The budget setting process for 2021/22 was approved by Full Council in February 2021. The 2021/22 financial position was periodically monitored and reviewed, and then consolidated and presented to Directorate Management Teams. The overall Council financial position is then reported to the Executive Management

Team on a quarterly basis. A detailed quarterly financial monitoring report has also been presented to Cabinet as part of the financial reporting process. This financial position report is also given to the Resources Scrutiny and Improvement Committee to assess and to hold the appropriate decision makers to account. Information has also been given to this Committee who have formed a view around the risks faced by the changing financial position of the Council. All key stakeholders within the Council are therefore involved in the budget monitoring process and should be aware of the implications of any changes on a timely basis.

8.0 Appendices and Background Papers

Appendix 1 – Summary Accounts 2021/22

Appendix 2 – Draft Statement of Accounts 2021/22

9.0 Contact Officer

9.1 Name: Rob Davisworth

9.2 Position: Chief Accountant

9.3 Email address: robert.davisworth@redcar-cleveland.gov.uk

9.4 Telephone Number: 07585 307384



Summary Statement of Accounts 2021/22

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Rob Davisworth – Chief Accountant and Deputy Section 151 Officer

During the 2021/22 financial year, the Council continued to contend with the impact of the COVID-19 pandemic.

The Council's financial accounts show in significant detail how the Council is funded and how the Council uses its resources to meet resident and business needs in the Borough. The Council's financial statements also provide an indication of the Council's financial health.

As we enter into 2022/23 the Council will face numerous financial challenges and opportunities which it will seek to embrace and address. These include:

- Delivering an ambitious and exciting capital programme which will improve the local economy and physical appearance of the Borough.
- Supporting economic development and regeneration in Teesworks as we support the creation of new businesses and economic activity – together with the jobs and skills this will create.
- Implementing new adult social care reforms expected in the next few years.
- Supporting the Borough as we experience a challenging cost-of-living crisis.
- Ensuring we maintain financial resilience and we set a sustainable and deliverable medium term financial plan which continues to ensure the Council provides a range of high-quality services.
- Ensuring we continue to put in measures which will support the Borough's determination to be carbon neutral and more environmentally sustainable.
- Looking at ways in which we can treat the region's domestic waste in a more sustainable and efficient way.

The demand and cost pressures on many of our services has increased due to COVID-19 and will continue in future years. We continue to carefully manage the funding provided by Government to mitigate these pressures and support the financial resilience of the Council into the future.

As in previous years, I wish to thank all our staff who have shown great commitment to meet the many challenges we have faced throughout recent years whilst supporting the delivery of the Council's priorities and administering its finances to the usual high standard.

The revenue budget for 2021/22 was built based upon the new ambitious priorities included in our Flourishing Future Plan as outlined in the Priorities and Performance sections in the Statement of Accounts 2021/22. It was also developed considering the following key assumptions:

- A Revenue Support Grant of £7.472 million.
- A Council Tax increase of 1.99%.
- An Adult Social Care Precept increase of 2.00%.
- Additional investment in our services of £7.887 million.
- Driving Efficiencies Programme of £2.086 million.

The officers with budget management responsibility continued to work with the Financial Services team to ensure a robust budget monitoring process existed throughout 2021/22. As in previous years, this has been supported by monthly monitoring to Directorate Management Teams and the Executive Management Team, and quarterly reporting of the financial position to Cabinet. Any significant financial pressures which are identified as recurring are reflected in the ongoing Medium Term Financial Strategy of the Council.

The Council reported a broadly breakeven position in 2021/22, after the transfer of £2.500 million to the Strategic Change reserve and £0.153 million to the General Fund Reserve. The table below details the Directorate year end positions against approved budget. Given the pressures facing the Council, it is critical that we continue to monitor our financial performance and maintain quality services for our residents and work within our budget allocations in the next financial year.

The Council's financial strategy is to generate additional growth income through various projects, securing external funding in addition to continually improving efficiency and effectiveness to produce savings and reduce costs.



Statement of Financial Accounts

Directorate	Revised Budget £m	Actual Outturn £m	Variance to Revised Budget £m
COVID-19 Support	-	(4.455)	(4.455)
Adults, Communities and Environment	74.900	74.914	0.014
Children and Families	39.571	42.192	2.621
Resources and Growth	8.332	8.158	(0.174)
Corporate Allocations	(10.934)	(8.985)	1.949
Total	111.869	111.824	(0.045)

The variances highlighted in the table above are due to the following:

- **Adult and Communities:** – an overall overspend of £0.014 million. Within Adult Social Care some of the financial challenges were funded by additional one-off Covid-19 funding, awarded by the Government to meet specific challenges faced by care providers in delivering services to vulnerable adults and the need to ensure effective measures were in place to free up hospital beds during peak periods of the pandemic, whilst ensuring suitable care packages were in place in residential care homes for people leaving hospital and requiring short-term care. The service and care sector faces significant recruitment challenges and inflationary cost pressures which will significantly drive up the cost of delivering services in future years, over and above the estimates currently factored into the Medium-Term Financial Strategy. The sector is also facing significant demand

backlogs which will need additional resources to address. In addition, the Council is working closely with neighbouring local authorities to understand the financial impact of the Government reforms to the adult social care sector. The Directorate has set aside a £1.000 million risk reserve to mitigate these challenges, however, funding may be required to manage these challenges in future years. The Council has provided significant financial support to its leisure provider Sports Leisure Management during 2021/22 of £0.740 million. Waste management costs have increased due to increased tonnages of waste produced by households and increased recycling costs incurred due to a short-term recycling contract being in place. The Council also provided extended opening hours for waste facilities and incurred additional staffing and vehicle hire to facilitate social distancing requirements during the most of 2021/22. This has resulted in pressures of around £1.300 million. The service has also seen income reductions as a direct result of the Pandemic, resulting in income pressures of around £0.350 million.

- **Children & Families:** - an overall overspend of £2.621 million. The Directorate experienced significant challenges recruiting experienced social care workers into staffing positions and there has been an increased use of agency social workers resulting in an eventual overspend of £0.306 million. In the short-term the Council have appointed a project team to support workforce capacity so that social worker caseloads remain safe and manageable. In the longer term the Directorate are working towards the creation of a social work academy in 2022/23 to address these challenges by investing in the training of trainee social care workers. The Directorate has also experienced additional

cost pressures against the budget for Children in our Care of around £0.600 million. These primarily relate to the costs of special guardianship allowances and other forms of care. In addition, there was an overspend on short-break packages for £0.200 million. The Home-to-School transport service overspent by £0.985 million due to the need for additional transport routes for the 2021/22 academic year to serve children in placements outside of mainstream school. These additional pressures have been addressed as part of the wider budget setting process. The Council is closely monitoring the further impact of escalating fuel prices on these contracts for 2022/23.

- **Resources and Growth:** - the underspend in this Directorate primarily relates to salary savings within the Directorate due to recruitment challenges. Additional income was also received relating to planning income, an element of which will need to be set aside to reserves to fund one-off costs meeting the statutory requirements of considering planning applications received. The Directorate is however facing supply pressures for gas and electricity. As a result of this the Council has set aside an energy risk reserve of £0.300 million.
- **Corporate Allocations:** - The Council has achieved in year, one-off savings on capital financing budgets due primarily to some capital schemes being reprofiled as part of the updated Capital Programme. The Council is also using the cash balances it holds to reduce the requirement to borrow in this financial year, thereby saving on interest costs. The overspend against this budget is primarily linked to the contribution to the Strategic Change Reserve (£2.500 million) and the General Fund reserve (£0.153 million). The

contribution to the Strategic Change reserve will increase resources available for funding any change initiatives aimed at improving financial sustainability in future years. The planned contribution to General Reserves ensures the balance is aligned to 5% of the net revenue budget of the Council in 2022/23, as per the Reserves' policy requirement set by the Council's Section 151 Officer.



The Statement of Accounts is underpinned by the key financial statements:

Movement in Reserves Statement (MIRS). This statement shows the change in the different types of reserves held by the Council over the financial year. These reserves are analysed between usable reserves (those that fund future expenditure) and other unusable reserves, held for accounting purposes.

Comprehensive Income and Expenditure Statement (CIES). This statement records all the gains and losses experienced by the Council during the financial year and equates to a movement in the net worth on the balance sheet of £105.166 million. To make the annual accounts more understandable, the CIES is split into reporting segments that mirror service delivery.

The primary purpose of the CIES is to record revenue income and expenditure, which is generally spent on items such as employee costs, and supplies & services. This is financed from a combination of council tax, business rates, Government Grants and other income.



There is an initial surplus of £0.416 million on the CIES for the net cost of providing the Council's day to day revenue services. This includes various technical adjustments required by accounting standards in the Code, which relate to capital accounting, pensions accounting and collection fund regulatory changes. These technical adjustments are not chargeable against the funding from taxpayers and are excluded from the analysis of how the Council has performed against its revenue budget. When gains relating to pension fund performance of £85.843 million and capital assets of £18.907 million are adjusted for, the net gain in the value of the Council for the financial year is £105.166 million.

Statement of Financial Accounts

The total net spending on Cost of Services was £135.192 million. The Comprehensive Income and Expenditure Statement within the Statement of Accounts shows the true cost of delivering services within the 2021/22 financial year. This includes unrealised gains and losses on non-current assets, financial instruments and pensions. The following table provides this information together with how this has been financed.

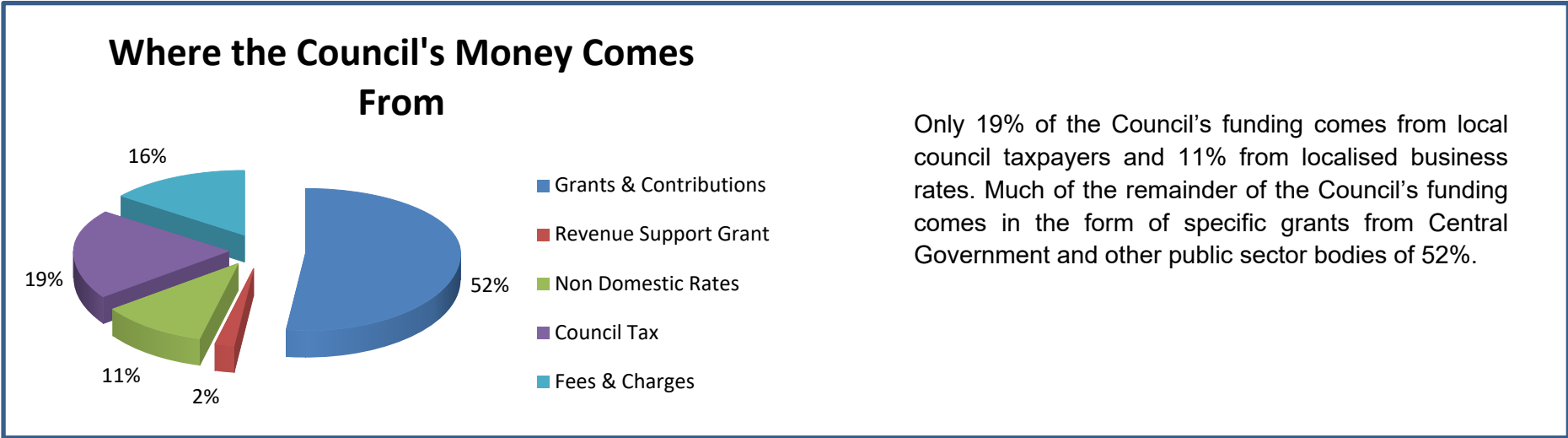
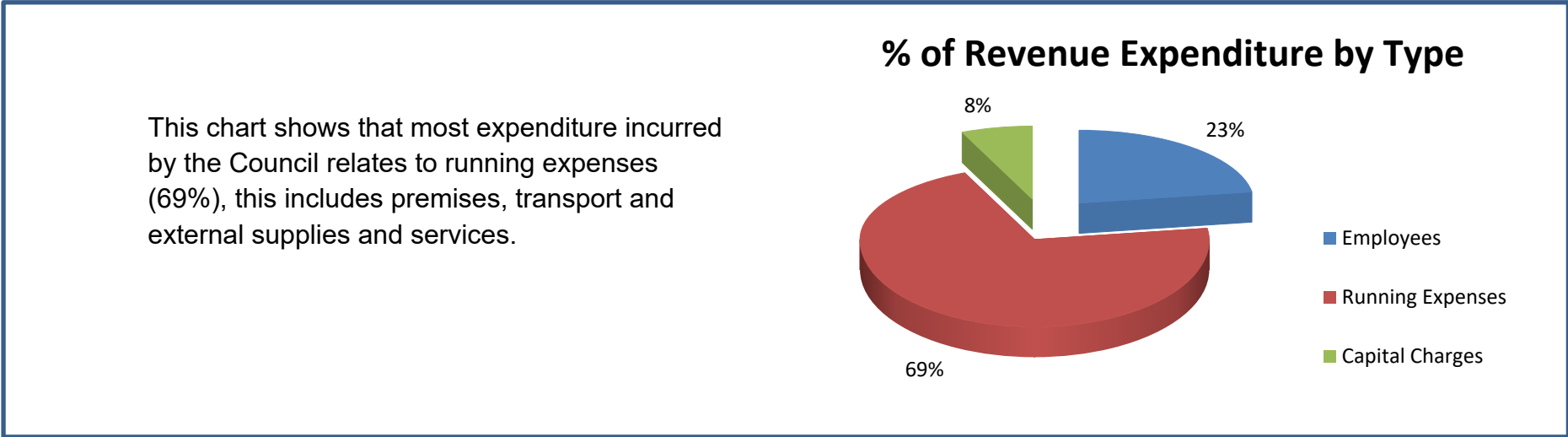


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Comprehensive Income and Expenditure Statement	Gross Spend £'000	Income £'000	Net Spend £'000
Adults, Communities and Environment	160,316	(84,638)	75,678
Children and Families	97,777	(49,867)	47,910
Housing Benefits	37,243	(37,145)	98
Resources and Growth	33,599	(24,784)	8,815
Net Cost of Services	328,935	(196,434)	132,501
Other Operating Expenditure	828	-	828
Financing and Investment	33,446	(15,931)	17,515
Income and Expenditure			
Taxation and Non-specific Grant Income	-	(151,260)	(151,260)
(Surplus) or Deficit on Provision of Services	363,209	(363,625)	(416)
(Surplus)/Deficit on Revaluation of Non-current Assets			(18,907)
Actuarial (Gains)/Losses on Pension Assets/Liabilities			(85,843)
Other Comprehensive Income and Expenditure			(104,750)
Total Comprehensive Income and Expenditure			(105,166)

These diagrams show what we spend our money on, and where we get our money from as shown in the Comprehensive Income and Expenditure Statement:

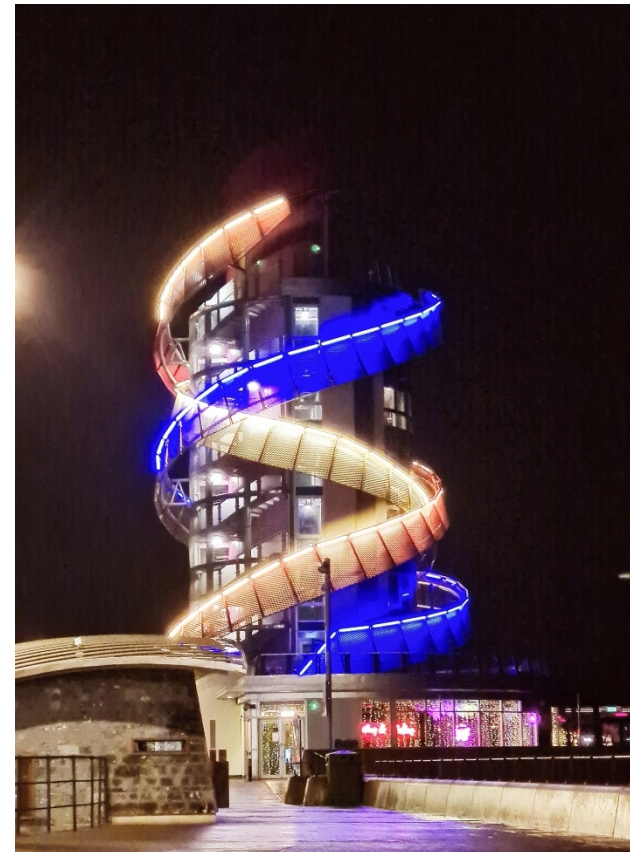
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The Council's Balance Sheet at 31st March 2022

The Balance Sheet presents the financial position of the Council at the end of March 2022. It shows what assets and balances the Council holds, what it is owed and what it owes.

The Council has more liabilities than assets, which results in what is technically called a negative equity balance sheet (at 31 March 2022). Liabilities outweigh its assets by £106.985, million. This is mainly driven by the deficit on the Pension Fund. However, the Pension Fund deficit reflects an assessment of what is owed in pensions over many decades and all those liabilities will not crystallise at any one point in time.



Balance Sheet

Balance Sheet 2021/22	£'000
Assets	
Buildings, Land and Equipment	289,370
Other Long-term Assets	1,901
Money owed to the Council	46,239
Cash, Investments and Stocks	27,857
Total Assets	365,367
Liabilities	
Borrowing	(234,928)
Pension Scheme	(160,527)
Amounts owed by the Council	(39,542)
Provisions	(6,672)
Capital and Revenue Government Grants not yet applied	(30,683)
Total Liabilities	(472,352)
Assets less Liabilities	(106,985)
Financed By: -	
Usable reserves	(52,942)
Unusable Reserves	159,927
Total Net Worth	106,985

Capital Expenditure

Capital Expenditure

Capital expenditure represents money spent on land, buildings, equipment and infrastructure. In 2021/22, the Council spent £31.459 million on capital items. The main areas of capital investment in 2021/22 were:

Capital Spend by Cluster	2021/22 £'000
Town Scape Investment	4,789
Visitor Attractions & Amenities	8,704
Business Infrastructure	588
Transport Infrastructure	4,817
Housing	963
Supported Housing	1,619
Community Capacity	89
Recycling & Waste initiatives	500
Education	1,826
Council Investments	7,564
Total Capital Spend	31,459

Collection Fund

The Collection Fund is an account that the Council maintains, in its statutory role as the Billing Authority, to record the income and expenditure from council tax and business rates. It is a separate legal fund from the Council's general fund and the transactions involved are defined by regulation. The Collection Fund is an income and expenditure statement only showing income receivable, precepts payable to relevant bodies, and any other associated costs involved in administering the Fund. All assets and liabilities are included within each precepting body's balance sheet. The Collection Fund shows a deficit of £14.427 million with £1.258 million deficit attributable to council tax and £13.169 million deficit in relation to business rates.

The deficit on council tax is mainly due to the increase in the bad debt provision required due to a reduction in the collection rate. For business rates the Government granted additional reliefs of £5.299 million which has been funded by a direct grant to local authorities. The remainder of the deficit is an increase to the appeals provision (£5.613 million) due to the risk of high settlements for the appeals outstanding and a reduction in overall liability. Within both the deficits for council tax and business rates there is the balance brought forward from 2020/21 of £1.909 million which will be funded in 2022/23 and 2023/24. This is following the Government providing exceptional dispensation to local authorities to spread the impact of the 2020/21 deficit across a three-year period between 2021/22 to 2023/24.

The budget for 2021/22 was based on an increase in council tax with the Band D equivalent amount for 2021/22 being £1,705.86 per annum (including the social care levy). The addition of the Cleveland Police and Crime Commissioner and Cleveland Fire Authority spending requirements resulted in a total Band D Council Tax of £2,051.92 for residents of the Borough in non-parish areas. Residents of areas with parish council responsibilities paid marginally more than this depending on their own parish council tax amount. This resulted in a total precept income requirement of £82.670 million. Total income on council tax for 2021/22 was £83.756 million.

In 2013/14, the local Government finance regime was revised with the introduction of the business rate retention scheme. The main aim of the scheme is to give the Council a greater incentive to grow businesses in the Borough. It does, however, also increase the financial risk due to non-collection and the volatility of business rates income. The scheme allows the Council to retain a proportion of the total business rates income received. Redcar & Cleveland's share is 49% with the remainder paid over to precepting bodies (Central Government 50% and Cleveland Fire Authority 1%). The total income collectable from business rates payers was £31.503 million.

Further Information

If you have any comments or queries regarding this summary, please contact the Chief Accountant on 01642 444306 or by e-mail to robert.davisworth@redcar-cleveland.gov.uk.



Member Report

Annual Governance Statement 2021-2022 and Local Code of Governance

Report to: Governance Committee

Report from: Managing Director (Head of Paid Service)

Portfolio: Leader of the Council

Report Date: 13 March 2023

Decision Type: Committee

Council Priority: All priorities

HEADLINE POSITION

1.0 Summary of report

1.1 This report seeks approval of Annual Governance Statement 2021-22 and Local Code of Governance following consultation with both Cabinet and Scrutiny.

2.0 Recommendation

2.1 Members are recommended to approve the draft Annual Governance Statement 2021-22 and Local Code of Governance.

DETAILED PROPOSALS

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

3.1 Governance is a description given to the systems, processes, culture and values by which a Council is directed and controlled. The Council continuously strives to ensure that its governance processes are robust and capable of underpinning the delivery of its services, ensuring that public money and resources are effectively managed and that the Council remains financially sustainable. Our approach to delivering good governance is underpinned by our values of:

- Keeping our communities central to what we do;
- Being caring and respectful;
- Being bold and ambitious;
- Promoting equality of opportunity; and
- Always aiming to get the job done to the best of our ability, within available resources.

3.2 In order to ensure that the Council is delivering services for its residents in a cost effective, efficient way it is vital to have strong and proportionate governance arrangements in place. In conjunction with developing and seeking approval of the

Council's Annual Statement of Accounts there is a requirement to produce an accompanying Annual Governance Statement. The statement reflects the governance framework within which the Council has operated during 2021-22 although includes some updates where appropriate to do so.

- 3.3 The statement is a narrative document which describes the practical application of the governance framework, reviews progress against the key corporate risks identified in the preceding year and highlights key risks for the coming year. The statement has been prepared taking account of views from relevant officers across the authority including Executive Management Team. It has also been reviewed by both Cabinet and Scrutiny to ensure it reflects the views of Members from across the political spectrum.
- 3.4 In considering the draft statement, Corporate Resources and Governance Scrutiny & Improvement Committee felt that although the cost of living crisis and continued contraction of the UK economy was essentially covered in existing risk profile relating to the Medium Term Financial Plan, because of its impact on the Council and its finances, it warranted being mentioned specifically. Cabinet endorsed this view at their meeting on 21 December 2022 and the risk section of the statement has been amended accordingly.
- 3.5 The statement is supported by a Local Code of Governance which succinctly sets out our governance framework for both an external and internal audience, including links to relevant documents on the Council's website. The documents are designed to be read in conjunction with each other.

4.0 What options have been considered

- 4.1 It is a requirement of the Accounts and Audit Regulations 2015 that the Council publishes an annual statement of internal control. This is the Annual Governance Statement.

5.0 Impact Assessment

- 5.1 **Climate Emergency** - Whilst the production of the Annual Governance Statement and the Local Code of Governance in themselves will not directly impact upon our carbon footprint, progress with achieving the Council's aims in respect of addressing the climate emergency will be monitored through the various governance processes as described within this statement.
- 5.2 **Health and Safety** - Although the presentation of the Annual Governance Statement in itself does not pose any health and safety risk, a good control environment for health and safety is fundamental to our governance arrangements.
- 5.3 **Social Value** - The Council fully supports the voluntary and community sector and recognises the important role the sector plays in enabling communities and citizens to thrive. It is committed to ensuring as much of its spending power as possible is recycled locally to support the economy and communities. The principles of our Social Value Charter are embedded throughout our governance processes.

- 5.4 **Legal** - It is a requirement of the Accounts and Audit Regulations 2015 that the Council publishes an annual statement of internal control. This is the Annual Governance Statement.
- 5.5 **Financial** - There are no direct financial costs associated with the production of the Statement. There is a commitment of officer time. The Statement is published on the Council website, and there are no external costs involved in this. The statement describes the arrangements in place to ensure sound financial decisions are made and priority outcomes are sufficiently resourced.
- 5.6 **Human Resources** - The participation, development and motivation of staff are critical to the Council's success. The development of the Council's vision, values and priorities have all been influenced through the direct involvement of staff. The continuing prioritisation of 'valuing our people' will ensure that there is a strong and dynamic workforce to support the realisation of the Council's ambitions.
- 5.7 **Equality and Diversity** – The Annual Governance Statement and Local Code of Governance reflect the governance systems and controls which the Council has in place to assist in the delivery of its objectives, which are intended to have a positive impact on individuals of all protected characteristics.

6.0 Implementation Plan

- 6.1 **Timetable for Implementing Decision:** The Annual Governance Statement is scheduled to be approved by Governance Committee, as final decision maker on the issue, at its meeting on 13 March 2023.
- 6.2 **Lead Officer** Governance Director.
- 6.3 **Reporting Progress** – Progress against key corporate risks, including those identified within the Annual Governance Statement, is reported at regular intervals through Governance Committee.
- 6.4 **Communications Plan** - The draft AGS was published on the Council's website with the draft Annual Statement of Accounts in July 2022 and was the basis of consultation with both Scrutiny and Cabinet. Following approval, the final document will be published on the Council's website.

7.0 Consultation and Engagement

- 7.1 As indicated in elsewhere in the report, following consideration of the first draft by Governance Committee, the statement has been considered by both Cabinet and Scrutiny to ensure that it reflects the views of Members from across the political spectrum prior to final approval by Governance Committee.

8.0 Appendices and Background Papers

Appendix 1 – draft Annual Governance Statement

9.0 Contact Officer

9.1 **Name:** Alison Pearson

9.2 **Position:** Governance Manager

9.3 **Email address:** alison.pearson@redcar-cleveland.gov.uk

9.4 **Telephone Number:** 01642 444063



Redcar and Cleveland Borough Council

Annual Governance Statement

1 April 2021 – 31 March 2022

Introduction

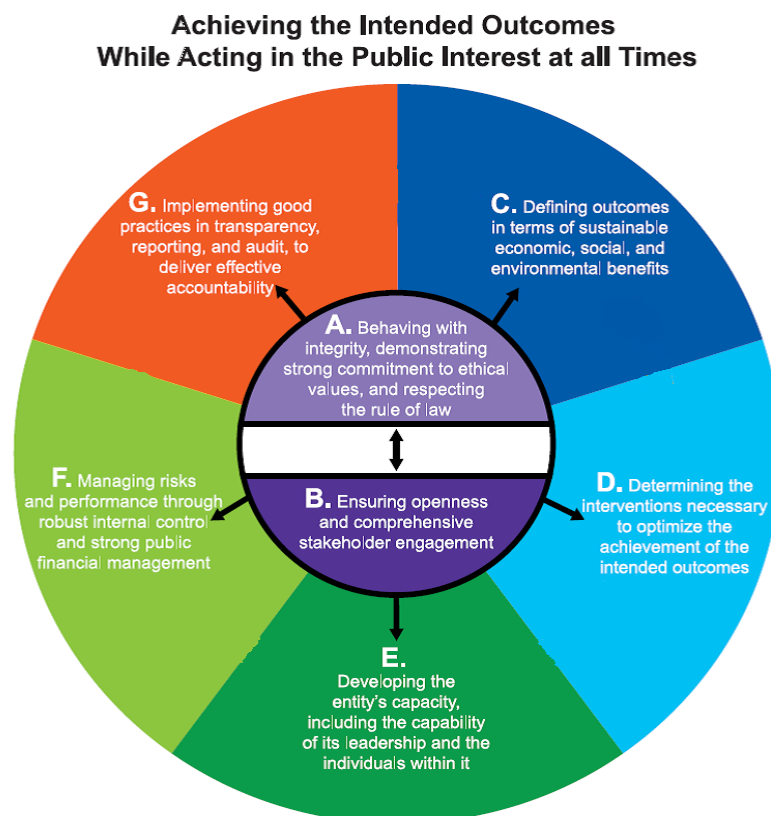
1. Governance is the general description given to the systems, processes, culture and values by which the Council is directed and controlled. CIPFA¹ has developed an International Framework: Good Governance in the Public Sector and defines Governance as follows:

“Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.”

2. In relation to public services, it further states:

“To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity’s objectives while acting in the public interest at all times. Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for services users and other stakeholders.”

3. The diagram from the International Framework, below, illustrates how the various principles for good governance in the public sector relate to each other. Principles A and B influence the implementation of principles C to G. The diagram also illustrates that good governance is dynamic, and that an entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.



¹ CIPFA – The Chartered Institute of Public Finance and Accountancy

4. The Accounts & Audit Regulations 2015 require the Council to prepare and publish a governance statement on an annual basis. This statement sets out:
 - the Council's commitment to delivering robust governance arrangements;
 - how the effectiveness of the governance arrangements is reviewed;
 - how the significant risks and issues faced by the Council and identified within last year's statement have been mitigated; and
 - key issues to be addressed in the coming year.
5. The Council has developed a Code of Governance, which is consistent with the principles of the International Framework and supports the Annual Governance Statement.

Scope of Responsibility

6. Redcar & Cleveland Borough Council's purpose is to serve its citizens primarily through the provision of statutory services supported by an ambitious programme of work designed to improve the economic, social and environmental well-being of our communities. It is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a duty to constantly seek to secure value for money and continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In these challenging economic times, good governance is critical to enable the Council to deliver on its priorities.
7. In discharging its responsibilities, the Council must have in place a sound system of internal control and have proper arrangements for the governance of its affairs. These proper arrangements help the Council to effectively exercise its functions, including the management of its assessed risks.

The Governance Framework

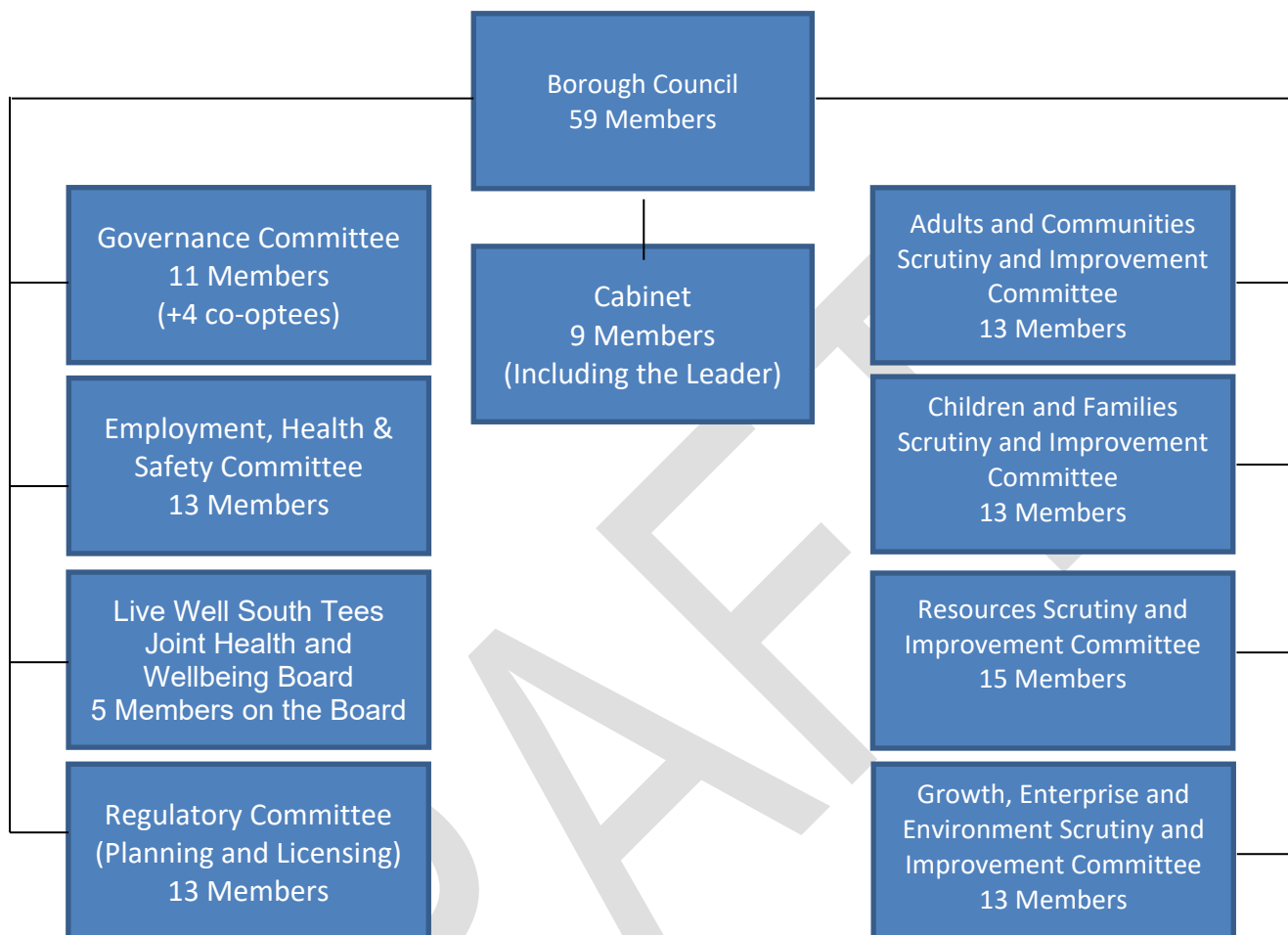
8. The requirement to have a robust governance framework and sound system of internal control covers all Council activities. The internal control environment within the Council operates consists of a number of different key elements which, when taken together, contribute to the overall corporate governance framework enabling the Council to monitor the achievement of its strategic objectives, its key priorities and deliver value for money for the citizens of Redcar & Cleveland.
9. The system of internal control is a significant part of the governance arrangements of the Council and is designed to manage risk to a reasonable and acceptable level. It cannot eliminate all risk and can therefore only provide reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify and prioritise the risks of the Council, to evaluate the likelihood of those risks occurring and the impact they would have, should they occur, and to manage them efficiently, effectively and economically.

10. The overall Governance Framework described in this Statement has been in place within the Council for the year ended 31 March 2022 and up to the date of approval of the Statement of Accounts for 2021/22.

Political Management Arrangements

11. The Council comprises 59 elected members representing the 24 Wards that make up the Borough of Redcar & Cleveland. Elected members are democratically accountable to the residents, and are elected every four years. They have a responsibility to ensure the Council is properly managed, and to maintain proper standards of behaviour.
12. Borough Council is responsible for agreeing the overall policy framework and setting the budget. The Council operates a system of Executive Arrangements with a strong leader and Cabinet model. The current Cabinet comprises nine Members, including the Leader.
 - Leader of the Council – Councillor Mary Lanigan
 - Deputy Leader of the Council and Cabinet Member for Health and Welfare – Councillor Steve Kay
 - Cabinet Member for Children – Councillor Alison Barnes
 - Cabinet Member for Corporate Resources – Councillor Glyn Nightingale
 - Cabinet Member for Climate Change, Environment and Culture – Councillor Louise Westbury
 - Cabinet Member for Adults – Councillor Mary Ovens
 - Cabinet Member for Economic Growth – Councillor Chris Gallacher
 - Cabinet Member for Highways and Transport – Councillor Cliff Foggo
 - Cabinet Member for Neighbourhoods and Housing – Councillor Barry Hunt
13. The constitution describes the various functions of the Council's decision-making structures, including the scheme of delegation, with Cabinet being the key decision making body.
14. Scrutiny holds the Executive to account through constructive 'critical friend' challenge and its power of 'call in'. Through Scrutiny & Improvement Committees, elected members review progress against objectives through discussion with Cabinet Members and through quarterly monitoring of financial and performance information. This improves decisions and outcomes. These Committees manage their work to enable them to look in more detail at individual topics, often through cross party task and finish groups, making recommendations to Cabinet or Council as appropriate. Two scrutiny task and finish groups have been progressed during the last year:
 - **Secondary Education** – this group has recently been reconvened following a return to face to face learning within schools and is currently focused on gaining an understanding of the causes of the increasing number of pupil exclusions in the Borough.
 - **Member Engagement on Climate Change** – this group has been convened to consider options and make a recommendation for a preferred option for Members to engage with the Council's climate change activities.

15. Joint Scrutiny Committee arrangements are also in place with neighbouring authorities to provide oversight and accountability reflecting more collaborative approaches to service design and delivery, particularly in relation to health matters, and the key functions of the Tees Valley Combined Authority.
16. The Governance Committee is tasked with ensuring, amongst other things, good stewardship of the Council's resources and promoting proper internal control by reviewing the Council's control systems and monitoring its compliance with legislation, relevant standards, codes of practice and policies.
17. In addition to Elected Members, the Governance Committee includes two co-opted Independent Members who are not Councillors or Officers of the Council or any other body having a committee undertaking a standards function and two co-opted members of the parish Councils in the Council's area.
18. Independent Members work alongside the other members of the Governance Committee and provide a non-political perspective on governance and audit matters. Independent Members also provide an objective and impartial view on issues relating to Councillor behaviour and corporate complaints. The Council also has an Independent Person who is not an Elected Member, co-opted Member or Officer of the Council, who may be consulted on conduct matters.
19. The Regulatory Committee has delegated powers to discharge some of the statutory functions of the Council, including planning and licensing.
20. The Employment Health and Safety Committee deals with employment and human resources matters and all functions relating to health and safety under any statutory provision relevant to the Council as an employer. It also acts as the Committee to deal with any matters reserved for full Council in the Constitution, but for which by reason of urgency, commercial sensitivity or other relevant reason it is not desirable to call a meeting of the full Council.
21. Live Well South Tees is the Health and Wellbeing Board which operates across both Redcar and Cleveland and Middlesbrough to discharge the functions required by the Health and Social Care Act 2012 and promote the health and wellbeing of local communities.
22. There is a range of outside bodies on which one or more Councillors sit to represent the Borough's interests, seeking to exert influence to implement local priorities.
23. The diagram below provides a visual representation of the Council's political management arrangements operating during 2021-22. The Scrutiny and Improvement Committees have been subject to review in conjunction with proposals to review the Council's senior management structure and changes have been implemented from September 2022. This included the addition of a fifth Scrutiny & Improvement Committee focusing on Climate and the Environment and the introduction of a Climate Forum open to all Members.



Management and Decision-Making Processes

24. The Managing Director is the Head of Paid Service. He is assisted by chief officers (Corporate Directors) who lead the Council’s Directorates. Collectively, they form an Executive Management Team (EMT). Each Directorate has a number of teams within it with the heads of those teams (Assistant Directors) reporting directly to the Directors. Officers provide help and advice to elected Members and residents, and they implement decisions of the Council, managing the day to day delivery of its services.
25. During 2021-23, the Council operated within three directorates: Adult and Communities, led by the Corporate Director for Adult and Communities; Children and Families, led by the Corporate Director for Children and Families; and a combined directorate of Resources and Growth, led by the Managing Director.
26. The position of Corporate Director for Growth, Enterprise and Environment had remained vacant since 2020. However, with a clear commitment to prioritise climate issues and provide further capacity and robustness in terms of service delivery to meet the challenges the Council now faces as we continue to emerge from the covid-19

pandemic, the senior management structure has been reviewed with the position of Corporate Director for Growth, Enterprise and Environment being reinstated. As well as increasing capacity to address climate issues, this action, along with proposed changes to scrutiny arrangements, is to allow greater focus on key strategic issues arising from the Freeport and Teesworks.

27. The Council's constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that governance arrangements are efficient, transparent and accountable to local people.
28. The Council publishes two Forward Plans on its website giving notice of key decisions to be taken by Cabinet and Council and key decisions to be taken using delegated powers. All decision-making reports consider legal, financial, equality, environmental, health & safety and social value implications.
29. Records of decisions taken through the delegated powers process are included in the Cabinet papers and published on the website for information and transparency. Agendas, reports and minutes of all key Council meetings are published on the Council website and meetings are open to the public except when personal and/or confidential matters are being discussed. Any use of special urgency provisions and disapplication of the call-in procedures where the usual Forward Plan notice requirements cannot be met are reported to Full Council.

Strategic Planning

30. The Council refreshed its Corporate Plan in November 2020 making clear the top priorities of the current administration supporting its vision for the Borough:

'Redcar & Cleveland Borough will be zero carbon, safer and more prosperous and attractive. People will live longer, more fulfilling and independent lives and will have access to the means of support when they need it.'
31. Building on the previous plan which was established from contributions from Members, Officers, partners and local people, the refreshed plan defines the outcomes which the Council considers to be the most important for delivering sustainable improvement in the Borough.
 - Priority 1: Tackling Climate Change and Enhancing the Natural Environment
 - Priority 2: Meeting Residents' Needs
 - Priority 3: Improving the Physical Appearance of the Borough and Enhancing Prosperity
 - Priority 4: Investing for the long-term
32. The Council has an agreed delivery plan setting out the actions required to deliver these four priorities up to 2024. The ambitious plan includes specific actions, with milestones and dates, intended to improve quality of life and help support the Borough and its residents.

33. Aligned to the Corporate Plan are the following key strategies:
- **Asset Strategy** (approved in June 2020) – adoption of high-level principles to guide the approach to manage the Council’s asset portfolio in a structured way, to achieve maximum value.
 - **Digital Strategy** (approved in November 2020) – the use of digital technology in an intelligent way tailored to the needs of specific services and improving the service provided to residents.
 - **Climate Change Strategy** (approved in March 2021) – a vision and action plan for achieving a carbon neutral borough by 2030.
 - **Workforce Development Strategy** (approved in June 2021) – how the Council will ensure its workforce is fully equipped to deliver its corporate commitments and be an employer of choice where staff feel supported and challenged and have a place to build a career.
34. The Council fosters a culture of behaviour based on shared values, ethical behaviour and good conduct as defined through its values and reflecting the way we work to serve our communities.
- *To keep communities central to what we do*
 - *To be caring and respectful*
 - *To be bold, ambitious and aspirational*
 - *To promote equality of opportunity*
 - *To always aim to get the job done, to the best of our ability within available resources*
35. The Council has formal codes of conduct for both Members and Officers and adopted the revised Local Government Association’s Model Code of Conduct in December 2021.
36. Promoting equality is embedded within the Council’s values. Equality Objectives were agreed by the Council in May 2022 following extensive consultation with a large number of groups and organisations. An officer Equalities and Diversity Group has been established consisting of volunteers from across the Council’s services and the intention is to implement the LGA Equalities Framework during 2022.

Financial Management

37. The Council’s financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer in Local Government (2014), and the Accounts & Audit Regulations 2015.
38. The Chief Finance Officer (Section 151 Officer) leads the annual development of the Council’s Medium Term Financial Strategy. The Chief Finance Officer takes responsibility for co-ordinating annual budgets with all Directors of the Council before their formal agreement and adoption by Cabinet and Council. This ensures resources are appropriately allocated through a balanced and fully-funded budget.

39. There are clearly established capital expenditure guidelines and formal project management disciplines in place for investment projects. The capital programme is a major source of investment in the Council's services. The programme is clustered into individual spending themes which support the Council's priorities. The Capital Programme is managed by the Council's Programme Management Group, who ensure that projects are commissioned and resourced where the expected outcomes link clearly to the Council's priorities and to the service planning process. All capital projects need to have a robust business case in place which can be scrutinised to ensure the project represents value for money and delivers key project outcomes. The Programme Management Group also seeks to ensure that the revenue costs of any additional borrowing are factored into the medium-term financial planning process, and where possible, additional costs of borrowing are offset by revenue budget savings or efficiencies.
40. Comprehensive and robust budgeting and reporting systems are in operation. The Executive Management Team and Elected Members are regularly updated with forecasts of expected financial outturn against the budget. This information is provided alongside relevant performance information, including action plans to Cabinet, Scrutiny and Governance Committees. All budgets are risk-assessed, with additional support provided in areas of high financial risk such as children's social care, adult social care, waste management and neighbourhoods.
41. Processes are being developed to further support the five-year planning cycle the Council currently utilises for its finance through the identification of potential savings, independent of the Medium-Term Financial Strategy, to provide greater financial flexibility and resilience in the event that financial pressures arise.
42. The Council recently completed a self-assessment against CIPFA's Financial Management Code, for 2021/22. As part of the review, the Council referred to the positive findings on a number of external reviews on the Council's arrangements for financial management and governance. The Council was able to therefore show a good core level of compliance with the Financial Management Code's standards, with some areas of improvement planned, informed by the findings of recent independent reviews and assessment by the Chief Finance Officer.
43. Contract Procedure Rules are an integral part of the Council's constitution and relate to the buying of goods, services and works on behalf of the Council. Procuring officers are required to demonstrate value for money and consistency with corporate priorities and ensure that robust monitoring arrangements are in place. The rules are reviewed and approved on an annual basis.

Policies and Guidance

44. A variety of policy and guidance documents exist to support the corporate governance arrangements. The Local Code of Governance aims to bring all these together in a single reference document, published on the website, with readily accessible links to the relevant documentation.

Ensuring Compliance

45. Ongoing monitoring and review of the Council's activities and adherence to the various policies and guidance is undertaken by the following statutory officers to ensure compliance with the relevant policies, procedures, laws and regulations:
- The Monitoring Officer – who is a member of the Executive Management team. The Monitoring Officer ensures that decisions are taken in a lawful and fair way, agreed procedures are followed and all applicable statutes, regulations and procedure rules are complied with. Measures are in place for dealing with breaches of legal and regulatory powers.
 - The Section 151 Officer – who is also a member of the Executive Management Team. The Chief Finance Officer ensures that decision making in respect of financial matters is lawful and financially prudent and that all statutory financial reporting duties are complied with.

Risk Management

46. Risk exists in all forms of public life, especially when trying new things to improve quality of life or managing unforeseen circumstances, such as the Covid pandemic. Managing those risks is a key element of effective corporate governance and supports the maintenance of a robust internal control environment. The Council has in place a Risk Management Framework supported and monitored by a Risk Management Group, chaired by the Governance Director. The Group considers various items of risk with the intention of identifying and seeking proactive remedial action for areas of concern. Risk management is used not only to avoid, or mitigate against risks but to understand risk to enable appropriate opportunities to be taken.
47. The Corporate Risk Register is reviewed, updated and challenged regularly and presented to the Executive Management Team for their consideration and reported to Governance Committee. Directorate and corporate risk registers are reviewed at Directorate and Executive Management Team level and capture the potential risks facing the Council and the Directorates.
48. Formal arrangements are in place for Business Continuity Management to enable critical services to be maintained to citizens in the event of a major incident. These have been reviewed and strengthened further to deal with service disruption due to either a physical or cyber event.

Audit and Counter Fraud Arrangements

49. The Council commissions Internal Audit and Fraud Investigation work from Veritau – Tees Valley, which is a jointly owned company between the Council, Middlesbrough Council and the parent Veritau Group, which provides internal audit and assurance services across a wider geographic area.
50. Veritau provide an independent and impartial audit assurance service which is designed to help clients manage their business and address the public service delivery challenges which have become more onerous with the combination of increasing

- demand, reduced resources, technological change and an ongoing redesign of services.
51. Since the inception of Veritau – Tees Valley in January 2020, the Council has benefited from increased resilience within the internal audit function and an enhancement of the counter-fraud and investigatory services.
 52. Veritau – Tees Valley operates and delivers internal audit and fraud investigatory services which comply with the Accounts and Audit Regulations, the Public Sector Internal Audit Standards and the CIPFA Statement on the Role of the Head of Internal Audit.
 53. The Council has adopted an Audit Charter which defines the role and scope of internal audit work delivered by Veritau, setting out the right of access and independence, reporting arrangements and the respective responsibilities of internal audit and management.
 54. Veritau's internal audit and counter fraud teams deliver an annual programme of review covering financial and operational systems. These audits include systems, regularity and probity audits designed to give assurance to members and managers on the effectiveness of the governance, risk management and control environment operating within the Council.
 55. Through its work, Veritau provides assurance to the Council's Section 151 Officer and the Monitoring Officer in discharging their statutory review and reporting responsibilities. In addition, Veritau – Tees Valley:
 - Provides advice and assistance to managers in the design, implementation and operation of controls;
 - Supports the maintenance of the Council's counter-fraud arrangements; and
 - Supports managers in the prevention and detection of fraud, corruption and other irregularities.
 56. Veritau – Tees Valley maintains quality assurance processes to ensure internal audit work is undertaken to appropriate professional standards. Periodic external assessments of audit working practices are undertaken to peer-review these standards.
 57. The Chief Accountant meets with the Veritau – Tees Valley Audit Manager on a regular basis. Throughout the year progress reports are presented to the Council's Governance Committee. The Audit Manager also provides an annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. Any significant weaknesses in control identified through the internal audit work will also be identified as part of this review.
 58. The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating at the Council for 2021/22 was that it provides 'reasonable assurance'.

59. Governance Committee can request copies of reports by Veritau – Tees Valley as it considers necessary.

Consultation and Communication

60. The Council's vision, priorities and outcomes are communicated through a variety of media to different audiences to encourage consultation and demonstrate accountability. Examples include:
- Delivering 'This is Redcar & Cleveland' residents' magazine periodically to all households in the Borough
 - Publishing key documents and strategies on the website, including the Annual Statement of Accounts and financial and performance out-turns
 - Undertaking statutory consultations on issues such as the budget
 - Promoting Council services and activities through social media
 - Conducting formal periodic residents' surveys.
61. The Council has an agreed communication strategy. It continues to develop its online presence and increase its engagement on social media sites. This improves people's ability to interact with the Council online and identify new ways of working with the community through digital communications. Printed communications continue to be reviewed to give residents the information they want in the format they prefer.
62. A new corporate website has been implemented which will be easier to use for local people and businesses and enable more services to be delivered on line, at times that are more convenient to residents, although still allowing contact by phone where needed.
63. The Council has focused a great deal on social media to communicate effectively with large numbers of local people during the pandemic. This has been particularly useful in helping vulnerable people to know about the risks they face and the support that is available to them (e.g. food deliveries during the first lockdown, access to various support funds).

Partnership Working Arrangements

64. Working in partnership to deliver the Council's priorities has been the norm for many years. The Council is proud to work with local communities, volunteers, voluntary and community organisations, the NHS, care providers, police, probation, schools, colleges and universities, businesses and many more.
65. The overall governance framework contributes to effective partnership and joint working arrangements. Live Well South Tees, the joint Health and Wellbeing Board, sits at the heart of collaborative working with partners to improve health and wellbeing outcomes for citizens across South Tees.
66. Tees Valley Combined Authority is a partnership between five local authorities whose purpose is to drive economic growth and job creation in the area and maximise opportunities available to the Tees Valley through the devolution of significant powers

and funding from Government, including the development of Teesworks and the Freeport.

67. The corporate planning framework connects the Council's priorities with these partnership priorities to derive maximum benefit for residents from the combined activity of all parties.

External Review and Inspection

68. The Council welcomes review and challenge from external peers and regulating bodies such as Ofsted, CQC and seeks to drive improvement through learning from these and sector-led improvement opportunities. A peer challenge was undertaken in November 2021, the focus of which was review the Council's strengths and areas for improvement in relation to priorities and outcomes, organisational and place leadership, governance and culture, financial planning and management and capacity and improvement, with a particular emphasis on how well the Council was maximising the economic opportunities for economic and community benefit of its residents and how well positioned and resilient the Council was in order to continue to make progress.
69. The review highlighted that the Council was operating from a solid base across all the areas reviewed and also identified a number of opportunities for improvement which now form the basis of a Corporate Peer Challenge delivery plan for the Council.

Review of Effectiveness

70. The Council has responsibility for reviewing annually the effectiveness of its governance framework including the system of internal control. The review is informed by the work of Scrutiny & Improvement Committees, the Managing Director, Corporate Directors and Assistant Directors within the Council who have responsibility for the development and maintenance of the governance arrangements, the Audit & Assurance Manager's annual report, and also by outcomes from external audit reports and other review agencies and inspectorates.
71. The means by which assurance is sought with respect to the governance framework include:
 - The Scrutiny & Improvement Committees recommend updates and changes to the Constitution, and these will be overseen by the Governance committee. The Monitoring Officer reports to the Governance Committee any changes to the Constitution which they have found necessary to make;
 - Scrutiny, through its Resources Scrutiny & Improvement Committee, can "call in" decisions which have been made but not yet implemented, to enable them to consider whether the decision is appropriate and properly made;
 - Through its Governance Committee, and the Cabinet, the Council is able to review the organisation of the Council and its internal structures, and is able to monitor any actions which are identified as being necessary to address any issues;

- The Council's Governance Committee has delegated responsibility for reviewing the adequacy of internal controls, validating the Internal Audit Annual Plan, monitoring the performance of internal audit, accepting the external audit plan, agreeing the Annual Governance Statement and approving the annual Statement of Accounts;
- Veritau - Tees Valley is responsible for monitoring and reporting on the quality and effectiveness of internal control. The content of the Annual Audit & Assurance Plan is based on the Council's corporate risk register, consultation with Directorate Management Teams, national and local risks and areas where issues have previously been identified. The Audit & Assurance Plan is subject to consultation with EMT and the Governance Committee.
- An internal assessment of Veritau – Tees Valley, based on a self-assessment against the Public Service Internal Audit Standards, is conducted each year and an external review of that assessment is carried out every five years;
- Veritau – Tees Valley prepares an annual report each year which sets out the overall opinion of the Audit and Assurance Manager on the controls operating in the Council. The opinion of the Head of Internal Audit on the framework of governance, risk management and control operating within the Council for 2021/22 is that it provides 'Reasonable Assurance'.
- Each directorate regularly reviews its own risk registers at team and directorate level. Risks with a high residual value are included within the Corporate Risk Register which is reviewed quarterly by EMT, and monitored by the Risk Management Group;
- Progress and issues arising in relation to all aspects of corporate governance are routinely reported to EMT through performance meetings at directorate and corporate level. These reports are presented quarterly and at other times outside this cycle as necessary. Performance reports for each directorate are also reviewed by Cabinet and Scrutiny & Improvement committees;
- The annual budget is monitored through a quarterly cycle of financial monitoring and reporting, initially to DMTs and then subsequently to EMT before onward transmission to Scrutiny and Cabinet;
- The Chief Finance Officer keeps the financial performance of the Council and each directorate under constant review and if necessary, is able to intervene in the financial affairs of any given directorate, including the placing of temporary finance representatives within a directorate to instil financial probity and address emerging issues.
- Across the Council, capacity building, financial management training and a disciplined approach to budget management have delivered efficiencies. There is rigorous financial management with support from financial services. Budgets are managed more accurately, with frontline managers taking responsibility for service quality and financial delivery;

- The Council strives to manage its business in a legally sound way, this is reflected in the fact there have not been any adverse judicial judgments against the Council in the last year.

Risks identified for 2021/22 and progress

72. The significant risks to the Council, which were identified in last year's Annual Governance Statement, are set out below along with a summary of the actions that have been taken to address those risks.

Progress against risks identified for 2021/22

Risk 1: Balancing the Medium Term Financial Plan

The Council continues to face a number of financial challenges relating to rising demand and cost pressures in various service areas which will need to be addressed over a five-year timeframe. The Council will seek to focus on ensuring its financial position remains sustainable, with long term expenditure requirements matched by long-term funding arrangements.

Progress Update:

The Borough Council approved a five-year medium term financial strategy between 2023/24 and 2027/28 on 23 February 2023. The refreshed medium term financial strategy identified several financial pressures linked to exceptionally high inflation and rising demand for statutory services.

One of the top twelve commitments underpinning the delivery of the council's priorities within the corporate plan has been a focus on financial resilience and sustainability. This principle has been adopted in the current MTFs, seeking to fund permanent commitments on a permanent basis to promote sustainability, and to protect reserve levels where possible to maintain resilience.

This approach has received strong endorsement from our external auditors, our corporate peer challenge, and the CIPFA financial assurance review undertaken in 2021.

Due to the current economic conditions this has become more challenging, with a fundamental refresh of the MTFs being required in order to address the financial challenges facing the council.

Inflation has risen sharply, due to supply chains struggling to keep pace with demand following the pandemic, added to by the conflict in Ukraine causing further shortages in key commodities.

When the Government undertook their Comprehensive Spending Review in October 2021, which included an assessment of the funding requirements of local government for the following three years, the rate of CPI was forecast to peak at 4% in 2022. CPI has since risen above 11%, the highest it has been for 40 years, and is forecast to remain high into 2023/24.

The high levels of inflation have caused some significant pressures on the Council's budgets, with significant cost increases for energy, fuel, labour, provider fees, construction, and other general costs.

In response to growing inflation, the Bank of England has increased base interest rates, which is feeding into higher interest rates for borrowing, which the Council needs to use to fund the Capital Investment Programme. This has increased the capital financing costs of the Council.

There is also increasing demand for some council services, influenced by the aftereffects of the pandemic and cost of living pressures, with the impact being felt particularly within children's social care and home to school transport.

The extent of the pressures needing to be provided for in this medium-term financial strategy, if left unmitigated, would deplete the council's reserves and leave an unsustainable financial position. We, along with the rest of the local government sector, have lobbied government on the need for additional funding to protect services and address the extraordinary inflationary impact being experienced.

The Chancellor's autumn statement and the subsequent draft local government finance settlement have recognised to some extent the pressures being experienced, providing some extra funding; but have not addressed the full breadth and scale of the financial challenges facing councils. It has therefore been necessary to develop an extensive savings programme, to ensure essential services can be maintained and the Council's financial position remains as sustainable and resilient as possible across the medium term.

After building in the proposed savings programme, the estimated budget deficit for 2023/24 is £2.5 million. This estimated deficit and the assumptions underpinning it will be kept under review as we monitor and report on the delivery of the 2023/24 budget and its associated savings programme. Any ultimate deficit will be funded from reserves with further permanent solutions sought for future years as necessary.

Regular budget monitoring continues to be undertaken to measure performance against budget assumptions, and to help inform decision making where necessary to take corrective action to mitigate forecast overspends. The latest council position for Quarter 3 of the 2022-23 year due to be reported to Cabinet on 14 March is forecasting an overspend of £5.9 million.

Services have implemented in-year mitigations to reduce the forecast overspend and protect our reserve balances as far as possible to preserve some financial resilience given the on-going challenges. This has reduced the overspend from a forecast of £7.9m at Quarter 1. More of a reduction would have been achieved but for a

continued worsening position regarding the costs of our statutory children in our care duties.

Estimates of how these current year cost pressures will roll forward into next year have been factored into the development of the recently approved 2023/24 Budget and MTFS.

Risk 2: IT Disruption due to Attack

Failure to protect the Council network from external and internal attacks could lead to a loss of service for a period of time to the borough's citizens, potentially resulting in harm to individuals, damage to reputation and financial consequences.

Progress Update:

As part of the successful LGA training fund bid. Training in recognised cyber security courses has and is being delivered to IT staff. This will increase awareness of cyber security threats and defences for key IT staff.

We have approached the LGA to become an early adopter of the Government Cyber Security strategy. Initial meetings have taken place. Information from these will be reviewed to understand the implications of applying the proposed measures within LGA Common Assessment Framework (CAF)

The Council's backup and recovery solution has now largely been moved over to new technology. This gives the ability to fully restore applications in a test environment. Giving assurance that the Councils IT can be recovered in the event of a cyber-attack or other incident.

Macros which are used in Microsoft products have been disabled across much of the Councils IT estate. Macros are a common attack method for malware. Macros are still allowed for specific use cases where there are identified business needs.

We are continuing to deploy the security functionality that comes with the Microsoft licensing that the Councils have invested in. This improves the security of the Councils desktop estate, helping to prevent system compromise.

A new system has been implemented to provide greater protection from Internet threats these include:

- Scanning of files as they are downloaded or uploaded to look for malicious content
- Blocking of specific sites or categories of websites
- Better reporting and identification of risky behaviour by users

Since phishing attacks account for some 60 - 80% of successful malware attacks, the Council has introduced Microsoft Safelinks into emails. This replaces any website or link that is included within emails. The replacement link checks the safety and validity of any link before a user clicks on it.

Ongoing phishing training for all staff with access to email. Staff are sent test phishing emails and are given extra guidance and training if they click on the links within them. The Council have invested in a third-party incident response service. This provides expert assistance in the event of any incident. This will include:

- An audit of the Council's preparations that are in place to respond to an incident. This will include guidance on any gaps or issues and assistance if producing them if needed.
- Live Incident Handling: A dedicated 24 x 7 cyber incident hotline that will help with the immediate issue. Dedicated security consultants will handle any security incident. They will work alongside global research teams, intelligence partners, national Computer Emergency Response Teams (CERT), and law enforcement agencies. to provide a detailed understanding and breakdown of any incidents.
- Help from Checkpoint who are Global Incident Response Partner
- Post-incident assistance to get the Council's operations functioning again, with post-incident analysis and recommendations.

Risk 3: Secondary School Attainment and Performance

Access to good education is critical to young people being able to develop the broad range of skills for adulthood. It underpins our aspirations for growing our local economy and increasing financial sustainability. Lower standards of education could affect the future welfare and prosperity of children in Redcar and Cleveland. High numbers of young people being excluded, for short periods and permanently, risks young people becoming isolated from society and possibly not remaining in education or employment beyond 16.

Progress Update:

Ofsted restarted graded inspections in September 2021. 40% of our schools (4/10) are now graded good or outstanding. At least 3 more should be regraded in the next 12 months. Exam data is now available for GCSEs and A Levels. First sight shows promising improvements in all schools, subject to verification.

All secondary schools in the borough are academies and therefore outside of the direct control of the local authority, however, the risk owner is assured by using other information and meetings with all our secondary schools that improvements are continuing and will show positive impact on student outcomes.

The schools have worked with the National Association for Special Educational Needs to have a much better understanding of their SEND cohort and with Tom Bennett to support understanding what behaviours the children display and how to help them to remain in the school. The Northeast Autism Society have lead seminars on how best to support neurodiverse young people in schools and therefore improving their outcomes.

The schools have been working with the Education Endowment Fund and Carmel Research Hub on improving attendance and engagement.

The Task and Finish group has restarted and commenced visits to some schools in the summer term. The other identified schools will have a visit in the Autumn term and a report about Inclusive practice and working together to reduce suspensions and permanent exclusions will be compiled.

Additional training for Headteachers and Pastoral Leads was arranged for November. Inclusive practice remains as a standing agenda point at the Strategic Education Board and Education Improvement Partnership.

We have appointed a dedicated Inclusion Lead and they and the team will continue to work with, support and challenge the school system to ensure inclusive practice and that permanent exclusion is a last resort. We are also working in Partnership with Anglo American through the Woodsmith Project to give additional support around emotional well-being and mental health to the secondary schools. Additionally, two of the schools will work more closely with the project for a 3-year period to look at developing engagement and participation of the disadvantaged cohort. We will use mentors to support those in Year 7 to help with attendance, focus and participation in extracurricular activities.

Risk 4: Impact and response to Covid-19

Covid has presented the biggest risk to public health and the economy of Redcar & Cleveland in modern times. As community leaders, the Council has a critical role in protecting life in our communities, including in our workforce. As place leaders, we have a critical role to support business and the local economy. Without an appropriate response to Covid, there would be a significant risk to:

- Life
- People's physical and mental health and wellbeing
- The economy and future job prospects
- The provision of public services to support the most vulnerable in the community, as well as generic services on which every resident depends, and
- The sustainability of the Council, given Covid's huge impact on finances

Progress Update:

We continue to follow government and public health guidance as we all learn to live with Covid, along with our communities. Each week, the Executive Management Team continues to have a regular item on the agenda for each Director to provide a service update which is a catch all for covid and other service-related matters. We are acutely aware that infection rates fluctuate and that new variants could emerge at any time. We are ready to respond to any significant change in circumstances, using the wealth of experience we gained from the March 2020 lockdown and the onward direction of the pandemic. Unless and until such a time, it is intended that this risk is managed at a Directorate level.

Risks and Governance issues identified for 2022/23

73. We continue to monitor risks, which involves careful scrutiny of information provided by each of the Council's Directorates and information provided by the Council's partners. The Council's Corporate Risk Register was inspected and reviewed, and the views of Members, the Managing Director, Corporate Directors, Officers, and Internal Audit were sought.

74. Through careful analysis of our current risk register and consideration of the available intelligence sources, the following risks can be identified as continuing to have the broadest and largest impacts across the organisation and our ability to deliver our key priorities. Consequently, we consider the following to be our key risks to address in the coming year:

- **Risk 1: Balancing the Medium Term Financial Plan**

The Council continues to face a number of financial challenges relating to rising demand and cost pressures in various service areas which will need to be addressed over a five-year timeframe. The impact of the current cost of living crisis and continued contraction in the UK economy on the Council and its finances presents a further challenge. The Council will seek to focus on ensuring its financial position remains sustainable, with long term expenditure requirements matched by long-term funding arrangements.

- **Risk 2: IT Disruption due to Attack**

Failure to protect the Council network from external and internal attacks could lead to a loss of service for a period of time to the borough's citizens, potentially resulting in harm to individuals, damage to reputation and financial consequences.

- **Risk 3: Secondary School Attainment and Performance**

Access to good education is critical to young people being able to develop the broad range of skills for adulthood. It underpins our aspirations for growing our local economy and increasing financial sustainability. Lower standards of education could affect the future welfare and prosperity of children in Redcar and Cleveland. High numbers of young people being excluded, for short periods and permanently, risks young people becoming isolated from society and possibly not remaining in education or employment beyond 16.

Statement of assurance

75. We are satisfied that this statement accurately reflects our review of effectiveness and identifies the major issues facing the authority in the coming year. Our effectiveness in addressing these issues will be monitored as part of our next annual review.

Signatures

.....
Leader of the Council

.....
Managing Director (Head of Paid Service)

REDCAR AND CLEVELAND BOROUGH COUNCIL'S CODE OF GOVERNANCE

Corporate governance is the term given to describe the systems, processes and values by which Councils operate and by which they engage with, and are held accountable to, their communities and stakeholders.

Redcar and Cleveland Borough Council is committed to demonstrating that it has the necessary corporate governance arrangements in place to perform effectively and ensure that through its actions it delivers positive outcomes for its citizens.

The Council's Code of Governance is built around the principles of good governance, as defined in guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE), entitled 'Delivering Good Governance in Local Government (2016).

Achieving the Intended Outcomes While Acting in the Public Interest at all Times



Each of the seven core principles (A-G) is supported by several sub-principles. The following table sets out, in one place, the various systems and processes that together constitute the Council's Governance Framework.

Principle A – Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law		
Supporting Principles	To achieve this, we will:	Supporting Evidence
<p>Behaving with integrity</p> <p>Demonstrating strong commitment to ethical values</p> <p>Respecting the rule of law</p>	<p>Publish an Annual Governance Statement reviewing the effectiveness of the Council’s Governance Framework.</p> <p>Maintain shared values which underpin an ethos of good governance.</p> <p>Maintain formal codes of conduct defining the standards of behaviour expected of both Members and Officers, with clear processes in place to investigate any complaints.</p> <p>Provide training on expected standards of behaviour for Members through the Member Induction Programme and for staff through the Corporate Induction.</p> <p>Demonstrate and communicate, through the authority’s leadership – both Members and Officers – the behavioural standards of openness, support and respect to uphold the Council’s values.</p> <p>Maintain registers of Interest for both Members and Officers.</p> <p>Maintain and regularly review the Gifts and Hospitality policy and guidance.</p> <p>Maintain a register of gifts and hospitality for both Members and Officers.</p> <p>Maintain and regularly review arrangements for making complaints in respect of Council services.</p> <p>Appoint an “independent person” to support the complaints process, in accordance with the requirements of the Localism Act, 2011.</p> <p>Publish an Annual Complaints Report, analysing trends in complaints against the Council, what has been done to address them, and what learning has been gained for the organisation as an outcome</p>	<p>Annual Governance Statement</p> <p>Our Flourishing Future – Corporate Plan 2021-24</p> <p>Member Code of Conduct</p> <p>Arrangements for dealing with Code of Conduct Complaints</p> <p>Employee Code of Conduct</p> <p>Member/Officer Protocol</p> <p>Members’ Register of Interests</p> <p>Members’ information on Website</p> <p>Council Constitution</p> <p>Gifts and Hospitality Policy and guidance (intranet)</p> <p>Corporate Complaints Procedure</p> <p>Information on complaints and feedback</p> <p>Adult Social Care Complaints and Compliments</p> <p>Children Social Care Complaints and Compliments</p> <p>Annual Complaints Monitoring and Local Government Ombudsman Letter</p>

	<p>Publish the Annual Letter from the Local Government Ombudsman.</p> <p>Maintain an effective Governance Committee fulfilling the core functions of an Audit Committee and taking responsibility for constitutional issues, ensuring it remains updated.</p> <p>Ensuring policies are in place and effectively communicated to enable confidential reporting of suspected breaches of the Employee Code of Conduct or unethical behaviour. (Whistleblowing and Prevention of Fraud and Corruption Policies)</p> <p>Ensure that statutory Officers are in place with the necessary skills, resources and support to perform effectively in their roles and that these roles are properly understood throughout the Council.</p> <p>Comply with legislation and all relevant professional standards.</p> <p>Maintain and regularly update financial procedure and contract procedure rules as necessary.</p> <p>Ensure there is a clear Procurement Strategy in place to meet the Council’s wider objectives and Contract Procedures Rules designed to deliver robust and fair procurement processes.</p> <p>Define vision and priority objectives through the Corporate Plan.</p> <p>Monitor and report on performance in respect of delivery against priority objectives, quarterly and annually.</p> <p>Agree and publish a Social Value Policy</p>	<p>Terms of Reference for Committees</p> <p>Schemes of Delegation</p> <p>Committee Papers on Website</p> <p>Annual Audit Letter</p> <p>Annual Statement of Accounts.</p> <p>Council Constitution</p> <p>Council procurement guidance</p> <p>Contract Register</p> <p>Our Flourishing Future – Corporate Plan 2021-24</p> <p>Our Flourishing Future Out-turn report</p> <p>Social Value Charter</p> <p>Annual budget setting papers</p>
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Principle B – Ensuring openness and comprehensive stakeholder engagement		
Supporting Principles	To achieve this, we will:	Supporting Evidence
<p>Openness</p> <p>Engaging comprehensively with institutional stakeholders</p> <p>Engaging with individual citizens and service users effectively</p>	<p>Undertake appropriate consultation with stakeholders in the development of the budget and key plans and strategies.</p> <p>Publish key documents on the Council’s website.</p> <p>Complete equality impact assessment in respect of relevant key decisions and policies and publish these on the website.</p> <p>Publish a Forward Plan of key decisions.</p> <p>Publish records of key decisions taken including decisions taken under delegated powers.</p> <p>Maintain the Freedom of Information Act Publication Scheme.</p> <p>Maintain arrangements for receiving and responding to petitions.</p> <p>Maintain a communication strategy to ensure effective engagement with stakeholders.</p> <p>Use a wide variety of methods for consultation and engagement with communities and stakeholders to meet different needs.</p> <p>Undertake periodic residents’ surveys, publish the findings and use them to inform budget setting and policy decisions / corporate plan development.</p> <p>Increasingly engage and seek feedback from the public through social media, including video.</p> <p>Communicate regularly with staff through an internal bulletin (BBB) and staff intranet, and seek views through staff surveys.</p> <p>Facilitate opportunities for the public to ask questions through Cabinet and Council.</p>	<p>Council consultations</p> <p>Council Website</p> <p>Equality Policy</p> <p>Council and committee papers</p> <p>Forward Plan Cabinet Key Decisions</p> <p>Forward Plan Key delegated decisions</p> <p>Delegated decision records</p> <p>Publication Scheme</p> <p>Petitions Protocol</p> <p>Marketing and Communications Strategy</p> <p>Residents’ Magazine</p> <p>Residents’ survey</p> <p>BBB – Staff Intranet</p> <p>Staff Survey - intranet</p> <p>Council Constitution</p>

	<p>Maintain an open-door policy for the Managing Director and Corporate Directors.</p> <p>Undertake a Joint Strategic Needs Assessment and use its findings to inform the Health and Wellbeing Strategy</p> <p>Participate in the Tees Valley Combined Authority arrangements, at both Member and Officer level, connecting with all aspects of TVCA policy / investment.</p> <p>Participate in joint scrutiny arrangements with neighbouring authorities in the South Tees and Tees Valley areas, where applicable.</p> <p>Participate in the Cleveland Local Resilience Forum (LRF) and all aspects of the LRF operations, as appropriate.</p>	<p>Joint Strategic Needs Assessment</p> <p>Live Well South Tees – Joint Health and Well-being Board Arrangements</p> <p>Tees Valley Combined Authority Website</p> <p>Tees Valley Combined Authority meeting papers</p> <p>Cleveland LRF website</p>
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Principle C – Defining outcomes in terms of sustainable economic, social, and environmental benefits		
Supporting Principles	To achieve this, we will:	Supporting Evidence
<p>Defining outcomes</p> <p>Sustainable economic, social and environmental benefits</p>	<p>Develop Directorate based delivery plans flowing from the priority outcomes set out within the Corporate Plan.</p> <p>Monitor progress against objectives and communicate performance in respect of the financial position and delivery of priority objectives, both quarterly and annually, for consideration by both Cabinet and Scrutiny, and publish on the website.</p>	<p>Our Flourishing Future – Corporate Plan 2021-24</p> <p>Quarterly performance reports (contained in Cabinet/Scrutiny papers)</p>

	<p>Agree and publish strategic planning documents directing the Council’s approach to managing its strategic resources such as asset management, information technology, workforce, aligning resource to priorities.</p> <p>Regularly review and refresh the procurement strategy, taking account of social value factors.</p> <p>Ensure that all Member reports explain how the report contributes to the delivery of the Corporate Plan and any associated impact in relation to environmental, social, financial, legal and safety factors.</p> <p>Adhere to the principles of the adopted social value charter to support the voluntary and community sector so that as much of the Council’s spending is recycled locally to support the economy and communities.</p> <p>Regularly review and update the Equality Policy.</p>	<p>Greener Futures micro-site Asset Strategy Digital Strategy Workforce Strategy</p> <p>Council procurement guidance</p> <p>Council and committee papers</p> <p>Social Value Charter</p> <p>Equality Policy</p>
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Principle D – Determining the interventions necessary to optimise the achievement of the intended outcomes		
Supporting Principles	To achieve this, we will:	Supporting Evidence
<p>Determining interventions</p> <p>Planning interventions</p> <p>Optimising achievement of intended outcomes</p>	<p>Clearly set out the Council’s vision for the borough and its priority objectives through the Corporate Plan.</p> <p>Develop annually, through the leadership of the Chief Financial Officer, the Medium Term Financial Plan, ensuring close alignment to Corporate Priorities.</p> <p>Monitor performance in respect of the financial position and delivery of priority objectives, and report on progress on a quarterly and annual basis.</p> <p>Ensure, through its appraisal process, that staff understand their roles and how they support the achievement of the service based, directorate based and corporate objectives.</p>	<p>Our Flourishing Future – Corporate Plan 2021-24</p> <p>Annual budget setting papers</p> <p>Quarterly performance reports (contained in Cabinet/Scrutiny papers)</p> <p>Appraisal guidance (staff intranet)</p>

	<p>Maintain and update the Risk Management Framework, reporting regularly on activity to mitigate risks through Directorate and Executive Management Teams and through Governance Committee.</p> <p>Consider, and set out relevant options and reasons for recommended options within decision-making reports.</p>	<p>Governance Committee papers</p> <p>Risk and Opportunity Management Policy</p> <p>Business Continuity Policy</p> <p>Risk Register updates Governance Committee Papers)</p> <p>Council and committee papers</p>
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Principle E - Developing the entity's capacity, including the capability of its leadership and the individuals within it		
Supporting Principles	To achieve this, we will:	Supporting Evidence
<p>Developing the entity's capacity</p> <p>Developing the capability of the entity's leadership and other individuals</p>	<p>Set out a clear statement of the respective roles and responsibilities of the Council's Executive, full Council, individual Members and statutory officers through the Constitution and Scheme of delegation.</p> <p>Develop and maintain a council workforce strategy which outlines the Council's staff support and development programme.</p> <p>Assess the skills required by officers through the appraisal process and address any training and knowledge gaps.</p> <p>Place a strong focus within the workforce development programme on Leadership Development; Management Development; Growing our Own Talent; Job Competencies; and Addressing Skill Gaps.</p> <p>Regularly review and refresh the induction programmes for both Members and</p>	<p>Comprehensive staff intranet</p> <p>Council Constitution (includes roles of statutory officers, members and schemes of delegation)</p> <p>Council Management and Structure</p> <p>Workforce Strategy</p> <p>Induction programme, induction pack and E-learning catalogue (intranet)</p>

	<p>Officers and provide development opportunities through eLearning modules and access to wider sector development events.</p> <p>Facilitate regular Member briefings on pertinent issues and periodic Member Conferences.</p> <p>Build capacity through its apprenticeship scheme, including young person's paid work experience scheme, to bring young people on to replace our ageing workforce.</p> <p>Ensure arrangements are in place to support and maintain the health and wellbeing of the workforce.</p> <p>Encourage participation and feedback from staff through periodic staff conferences and surveys.</p> <p>Engage in and use learning from peer reviews across different areas of the Council's business.</p>	<p>Apprenticeship guidance on website</p> <p>Wellbeing theme in Workforce Strategy</p> <p>Employment Health and Safety Policies (in Committee papers)</p> <p>Decision making pages on website</p> <p>Cabinet and Committee Papers Reports to Cabinet and Scrutiny summarising external review and inspection outcomes and improvement plans</p>
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Principle F – Managing risks and performance through robust internal control and strong public financial management		
Supporting Principles	To achieve this, we will:	Supporting Evidence
Managing risk	Maintain an effective Governance Committee, independent of executive and scrutiny functions, with clearly set out roles, responsibilities and terms of reference through the constitution.	Council Constitution
Managing performance		Terms of Reference for Committees
Robust internal control	Through Governance Committee, ensure robust risk management arrangements are in place and adhered to.	
Managing data		Governance Committee reports

<p>Strong public financial management</p>	<p>Work within an agreed risk management framework, supported and monitored by the Risk Management Group, chaired by the Governance Director.</p> <p>Maintain a Corporate Risk Register that is regularly reviewed, updated and challenged by Governance Committee.</p> <p>Review directorate risk registers through Directorate and Executive Management Teams, ensuring that key risks are captured within the Corporate Risk Register which is regularly reviewed and challenged by Governance Committee.</p> <p>Develop a risk based internal audit plan informed by the risk register and aligning to corporate priorities.</p> <p>Ensure arrangements are in place for Business Continuity Management (including ICT Disaster Recovery) to enable services to be maintained to citizens in the event of a major incident.</p> <p>Prepare and publish an Annual Statement of Accounts and Annual Governance Statement.</p> <p>Ensure arrangements for Internal and External Audit are clearly defined and that reports on activity and audit opinion are reported to Governance Committee.</p> <p>Ensure progress against both corporate plan objectives and financial targets are reviewed by Members through quarterly monitoring of financial and performance information, highlighting any areas of concern where intervention or support may be required.</p> <p>Ensure that the Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2014), and the Accounts & Audit Regulations 2015.</p>	<p>Risk and Opportunity Management Policy</p> <p>Business Continuity Policy</p> <p>Business Continuity Plans (Staff intranet)</p> <p>Annual Statement of Accounts.</p> <p>Annual Governance Statement</p> <p>Quarterly performance reports (contained in Cabinet/Scrutiny papers)</p> <p>Annual Audit Letter</p>
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	<p>Establish and communicate clear capital expenditure guidelines and formal project management disciplines for investment projects.</p> <p>Maintain and review financial procedure rules and ensure that resources are aligned with corporate priorities.</p> <p>Maintain and review Contract Procedure Rules.</p> <p>Maintain and support an effective scrutiny function, enabling Members to consider and help shape emerging policy issues before formal adoption through Cabinet and Council.</p> <p>Ensure there is a clear process for scrutiny to exercise its power of 'call-in.'</p> <p>Commission ad hoc task and finish groups to review individual topics in more depth, making recommendations to Cabinet or Council as appropriate.</p> <p>Participate in joint Scrutiny arrangements as appropriate, in relation to health matters, and the key functions of the Tees Valley Combined Authority.</p> <p>Maintain transparent complaints procedures and implement learning from complaints.</p> <p>Ensure governance arrangements support decision making and provide sufficient information to support the delivery of the priority objectives.</p> <p>Ensure appropriate health and safety arrangements are in place.</p> <p>Ensure policies and procedures for Information Governance and Security are regularly reviewed and updated, comply with legislative requirement and are published on the Council intranet.</p>	<p>Capital programme (in Cabinet and Committee papers)</p> <p>Annual budget setting papers</p> <p>Council Constitution Financial Procedure Rules (in constitution)</p> <p>Contract Procedure Rules (in constitution)</p> <p>Cabinet and Committee Papers</p> <p>Scrutiny arrangements and 'call in'</p> <p>Annual Complaints Monitoring and Local Government Ombudsman Letter</p> <p>Council Constitution</p> <p>Health and Safety information pages on website</p> <p>Data Protection Policy and associated guidance documents Data Protection and FOI guidance</p>
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	Include Information Governance and Security / GDPR training within the workforce development plan as mandatory training for both Members and Officers.	E learning modules and records
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G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability		
Sub Principles	How do we achieve this?	Supporting Evidence
<p>Implementing good practice in transparency</p> <p>Implementing good practices in reporting</p> <p>Assurance and effective accountability</p>	<p>Maintain an effective Internal Audit function which conforms to the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Statement on the Role of the Head of Internal Audit and is independent of the Executive and Scrutiny Committees.</p> <p>Maintain compliance with the local government transparency code and publish all required information in a timely manner.</p> <p>Prepare and publish an Annual Statement of Accounts and Annual Governance Statement.</p> <p>Submit an annual report to Governance Committee on Corporate Complaints and Local Government Ombudsman Letter.</p> <p>Maintain an effective Scrutiny function which supports constructive challenge and drives improvement.</p> <p>Ensure all key documents and decision-making reports are accessible via the Council's website, except where they deal with confidential issues and there is reason for them to remain exempt.</p> <p>Prepare, and make available to residents, an annual report on achievements.</p> <p>Maintain a regular programme of performance and financial reports to Cabinet and Scrutiny and an annual out-turn report.</p>	<p><u>Terms of Reference for Committees</u></p> <p><u>Publication Scheme</u></p> <p><u>Annual Statement of Accounts.</u></p> <p>Annual Complaints Monitoring and Local Government Ombudsman Letter</p> <p><u>Terms of Reference for Committees</u></p> <p><u>Council documents</u></p> <p>Our Flourishing Future Out-turn report</p> <p><u>Financial out-turn report</u></p>

	<p>Welcome the findings from external reviews and inspections from regulatory bodies and monitor the implementation of any recommended actions through its established performance management framework.</p>	<p><u>Annual Audit Letter</u></p> <p><u>Cabinet and Committee Papers</u></p> <p>Reports to Cabinet and Scrutiny summarising external review and inspection outcomes and improvement plans</p>
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