Department for Levelling Up, Housing and Communities

Local Government Finance Review – REDCAR AND CLEVELAND BOROUGH COUNCIL

December 2021

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1. Executive Summary

Redcar and Cleveland Borough Council experienced a cyber-attack on 8 February 2020, which left a number of IT systems and the Council's website inoperable. Following the attack, the Council have restored IT capability across the organisation.

The Ministry of Housing, Communities and Local Government, now renamed the Department for Levelling up, Housing and Communities (DLUHC) worked with Council over a number of months to assess the cost of the attack. DLUHC offered to support £4.9m of additional costs in 2020/21 that were directly attributable to recovery from the cyber-attack. The final proposed package of support was £1.22m of capitalisation and £3.68m of grant funding in 2020/21.

Based on the findings of this review we consider the Council to be well governed and financially stable in the short to medium term, with good prospects for the longer term. This will in part depend on future decisions by government on local authority funding mechanisms, and the extent to which the Council can benefit from projected economic growth linked to the Freeport and other regional developments. The receipt of grant to cover the costs of the cyber-attack have helped the Council to deliver its MTFS commitments to rebuild reserves, and in the context of COVID-19, this has been a significant achievement.

It is important to note that the Council opted to take advantage of the £3.68m grant but declined the opportunity to receive £1.22m of capitalisation. The Council is subject to the same post implementation review that has been applied to other Councils who have applied for support as this was managed through the same Exceptional Financial Support (EFS) process. However, we acknowledge the unique circumstances of the cyber-attack and the fact that the capitalisation option was not taken up in this case. No further EFS contributions are required for 2022/23 or the foreseeable future to enable a balanced budget to be set.

The Council faces ongoing future demand pressures in Adult Social Care, but the directorate has a good track record of delivering efficiencies to mitigate pressures and is highly focused on good financial stewardship. Childrens services has also been under considerable pressure that has manifested in budget overspends over the last three years. However, major developments are underway to deliver a new approach to the fostering service and the Council has recently acquired an arms-length legal company which will help manage escalating legal costs and provide additional income streams. Other challenges, particularly around waste providers, are being managed.

There are two key areas that the Council will need to focus on over the next 5 years:

- The Council has recently recovered from a period of depleted reserves that had caused significant concern to the external auditors, the new administration and the new management team. The Council will need to work hard to ensure that there is continued focus on maintaining a healthy level of reserves, while also taking a flexible strategic approach to how they are deployed in order to support the future development of the Council. There is scope for savings or investing in transformation that would reduce reliance on reserves for meeting budget gap.
- The Council holds considerable amounts of debt and the financing costs of this present a considerable revenue cost. The Council has an ambitious capital investment programme to support its strategy and will need to carefully manage this. Levels of borrowing are currently high compared to the CFR and Liability Benchmark – more information is covered in section 6 of this report.

Our key concern was that the Council had decided to revise its existing MTFS at the start of 2021/22 which only covers the period to the end of 2022/23. This was due to the lack of certainty over future local government spending plans for local government, and to a lesser degree, limited strategic capacity due to the disruption caused by COVID-19 and the cyber-attack. The Council is currently developing a new 5-year MTFS which will be launched in February 2022. However, this was not yet in a condition suitable for review. We have emphasised the risk in allowing the MTFS to run down to a 2-year financial planning horizon.

We have made a number of other recommendations that are intended to help the Council further improve its financial management arrangements towards what could be considered best practice.

Theme	***Key finding***	***Key recommendation***
Reserves	*The Council has recently recovered from a period of having low levels of reserves.*	4c Ensure continued focus on preserving adequate reserve levels.
Future Sustainability	*The Council's current MTFS only runs until 2022/23. A new 5-year MTFS is being developed.*	4a Maintain at least a 5-year MTFS financial planning horizon at all times. 4b Use scenario planning in the MTFS to help overcome uncertainties over future funding arrangements.
Assets	*The Council's current Capital programme runs until 2023/24. A new MTFS is being developed.*	*6c Align Capital programme for at least as long as the new MTFS refresh for 5 years.*

2. Focus of this review

2.1 Purpose of this report

The Exceptional Financial Support (EFS) process was established by DLUHC as a means by which the Ministry could consider and assess requests for support on a case-by-case basis, against a consistent set of principles, and this process includes an external assurance review.

The purpose of this report is to reflect the outcome of this review, as follows:

- To provide an assessment of Redcar and Cleveland Borough Council's financial management and management of financial risk, the deliverability of savings plans, and efficiency in delivering services.
- To provide assurance to DLUHC that as a local authority that received Exceptional Financial Support from the Department in the financial year 2020/21, the Council has taken appropriate steps to secure financial sustainability.
- To provide support to the Council in the form of recommendations and performance requirements to ensure they achieve this objective.

2.2 Methods used to gather data

In order to conduct the review, the following sources were used:

- Feedback from assessment of the Council's application for funding via the EFS process.
- Interviews with senior leadership including the Managing Director, Chief Finance Officer and the leader of the Council.
- Interviews with selected other officers
- Discussions with key stakeholders within the financial governance framework, including the external auditor, head of internal audit and members of the Audit and Governance Committee.
- Review of key documents provided by the council.
- Independent benchmarking and analytics.

2.3 Any scope restrictions

As noted above, the council elected not take up the option of a capitalisation instruction and therefore was not subject to aspects of the review that relate specifically to this aspect.

3. Background

3.1 The structure of the Council and how it operates

The Council runs a Cabinet system with a council leader and portfolio holders taking responsibility for various areas of council activity. The Cabinet is supported by a system of member committees to provide governance and scrutiny.

Following a management restructure in 2019, the post of Chief Executive was abolished, and a new Managing Director Role was created, performing the statutory role of head of paid service. The senior management team comprises:

- Managing Director
- Corporate Director for Children & Families
- Corporate Director for Adults & Communities
- Governance Director (Monitoring Officer)
- Assistant Director – Finance (Section 151 Officer)
- Strategic Policy Lead
- Head of Marketing and Communications

The senior team are supported by a number of Assistant Directors and Senior managers.

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
- Investing for the future

Financial sustainability is a key part of the strategy, with one of the 12 corporate commitments that underpin the strategy being “managing public money well, keeping the Council financially sustainable, and minimising the financial impact of Covid”.

3.2 Key statistical landscape

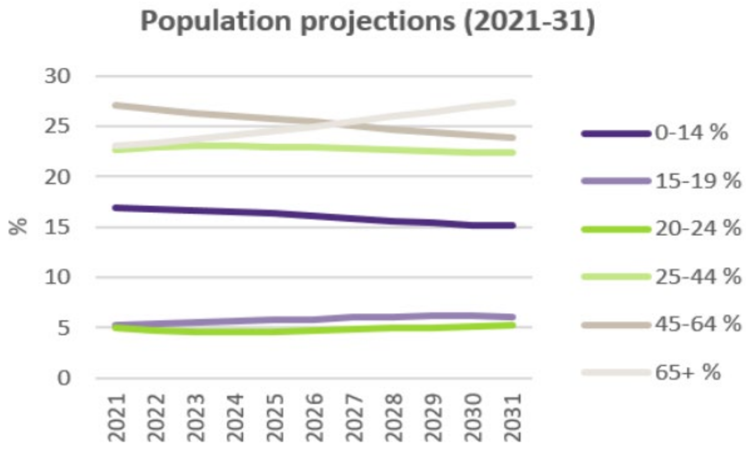
The age profile of Redcar and Cleveland’s current population (Data Source: ONS Temporal Coverage 2020) breaks down as follows, in comparison to other similar authorities:

- A lower proportion of residents aged 0-14-,15-19-, 20-24- and 25–44-year-olds relative to the Northeast average.
- Higher than the average proportions of residents aged 45–64-year-olds compared to the Northeast.
- Higher than average proportions of residents aged 65 and over, the second highest proportion compared to other unitary authorities in the Northeast.

The ‘Population projections (2021-31)’ shows the forecast % change across population bands:

- Redcar and Cleveland are projected to see a relative decline in % of resident population aged 0-14, 25-44 and 45-64.
- It is projected to see a relative increase in % of resident population 65 & over, higher than the Northeast and England averages.

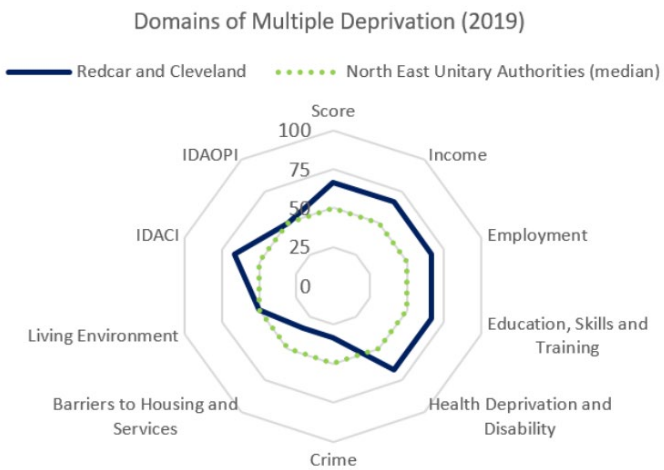
Figure 1 Population projections (2021-31). (DataSource: ONS Temporal coverage: 2021-2031)



In regard to relative levels of deprivation, the ‘Domains of Multiple Deprivation (2019)’ radar chart shows the relative levels of deprivation within Redcar and Cleveland compared to the other Northeast unitary authorities. In this diagram, proximity to the outside of the chart represents a high level of deprivation for that indicator.

- Redcar and Cleveland have relatively higher levels of deprivation compared to other authorities with all but one of the domains of deprivation between the 50th and 75th percentile.
- The Crime score, between the 25th and 50th percentile, is the domain below the median average of other unitary authorities in the Northeast.

Figure 2 Domains of Multiple Deprivation (2021-31). (DataSource: English Indices of Deprivation 2019 Department for Levelling Up, Housing & Communities Temporal coverage: 2019)

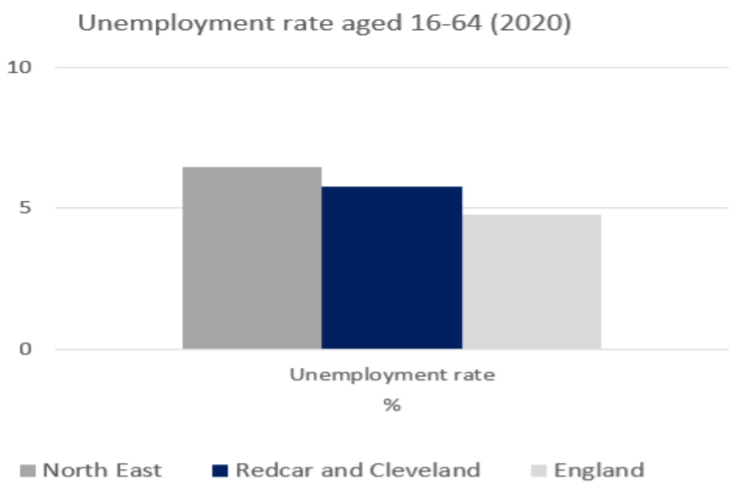


Note that IDACI is the Income Deprivation Affecting Children Index and IDAOPI is the Income Deprivation Affecting Older People Index.

The ‘Unemployment rate aged 16-64’ bar chart shows the average levels within Redcar and Cleveland, the Northeast and England.

- Redcar and Cleveland have relatively lower levels of unemployment rates compared to the average levels in the Northeast.
- From October 2019 to December 2020 average unemployment rates within Redcar and Cleveland have increased from 5.57% to 5.77%, compared to an increase in England of 4.03% to 4.75% in England.

Figure 3 Unemployment rate 16-64 (2020). (DataSource: Annual Population ONS Temporal coverage: 2020)



3.2 Past performance

The Council was created as a unitary authority on the 1st of April 1996. In April 2016 the Tees Valley Combined Authority was created with Redcar and Cleveland as a key partner, with a remit to drive economic growth and job creation.

The Council’s previous Corporate Plan was agreed by the Labour led administration in October 2017 and covered the period up to 2020. Prior to this period, the Council prioritised the maintenance of public services and limited council tax rises to mitigate the impact of austerity on local people, looking to mitigate financial pressures through the delivery of a savings programme. However, by 2020 this meant that the local tax base had not grown to its potential and this coincided with the Council’s reserves being depleted to a low level compared to other similar councils. At the same time, investment in local infrastructure had led to an increase in borrowing and resulting in a comparatively high proportion of the Council’s revenue budget being allocated to debt servicing. The erosion of reserves became a concern for the external auditor and resulted in a qualified Value for Money Conclusion being issued in 2018/19.

The local elections in May 2019 resulted in a change of administration to the current partnership between independent members and Liberal Democrats. The new Council leadership reviewed its priority areas for the remainder of 2019/20 and 2020/21, including a renewed focus on financial sustainability. In 2019/20 the external auditor recognised that improvements had been made, but the revised medium term financial plan had not had sufficient time to rebuild reserves to safer levels and the Value for Money (VfM) qualification was renewed in 2019/20.

In February 2020, the Council was hit by a cyber-attack that incapacitated its financial and other management systems for a period of several months. The projected financial risk associated with recovery from this attack was initially valued in excess of £10m, which was significantly more than the Council could reasonably mitigate through use of its depleted reserves or through other means, and this resulted in an application to DLUHC for financial support.

Also In February 2020, the financial and other service implications of the COVID-19 pandemic started to become apparent and these crystallised over the course of the financial year 2020/21. As was the case for all councils across the country, the Council was in receipt of a sequence of emergency grant payments and other financial measures to help mitigate COVID-19 related costs. The net effect of the emergency funding (EFS and COVID), and budgeted contributions to reserves within the MTFS, was the generation of a surplus at the end of 2020/21 that was able to be put into to reserves, significantly improving financial resilience.

Also in February 2021, the Tees Valley Combined Authority successfully bid for the creation of a new Freeport based on the River Tees. The Council is looking forward to the potential economic benefits for the area, including an opportunity to increase income from business rates and council tax.

4.The financial position

4.1 Introduction

This section will provide an assessment of the local authority's financial pressures and their ability to manage pressures outside the use of additional borrowing.

4.2 Projected budget position for the next few years

The Council's financial position over a 5-year period can be summarised as follows:

Year	Net budget £ Million	Outturn/ Forecast outturn £ Million	Variance £ Million	Increase/ (decrease) in GF Reserves Included in Outturn Position £ Million
Reported Outturn				
2018/19	106.546	106.544	(0.002)	(4.965)
2019/20	101.953	102.574	0.621	(7.367)
2020/21	109.958	109.958	-	13.678
Planned/ Forecast				
2021/22	111.869	-	-	-
2022/23	128.759			-

Over the 3 years 2018/19 to 2020/21, the Council has demonstrated a track record of setting and delivering a balanced budget, including the delivery of significant further savings. However, it is notable that over this period, there was a significant reliance on the write down of reserves to balance the budget and manage overspends, particularly in the Children and Families Directorate. The Council was acutely aware of this over reliance on earmarked general fund reserves and in February 2020 the new management team revised the existing MTFS to bring the underlying financial position back into balance. However, the impact of this plan would require time to unfold, during which time use of reserves would continue to be needed to bridge the gap.

Track record of financial performance

In 2018/19 the Council successfully delivered a net revenue budget of £106.546 million with a balance of £4.965 million drawn down from directorate and corporate earmarked reserves. Note that the comparatively low level of reserves held by the Council at year end had caused significant concern to the external auditors (Mazars) and led them to issue a qualified VfM conclusion for 2018/19.

In 2019/20 the Council delivered a net budget of £101.953 million, with an overall unmitigated overspend of £0.621 million, the cause of which were unfunded costs incurred due to the cyber-attack. The Council suffered the cyber-attack in February 2020, but the financial impact on 2019/20 was relatively light due to the proximity to year end. However, the position was underpinned by planned use of the Budget Strategy Reserve of £8.927 million, and £3.190 of directorate reserves (primarily in Adults and Communities) with other movements, including COVID-19 grant, reducing the overall reduction in reserves to £7.367 million. We note that within the budget, the Council had made some headway in rebuilding the reserves. In addition, £4.732 million COVID-19 funding was set aside in a new

Earmarked Reserve. The Budget Strategy Reserve had been set aside to manage the projected funding gap in 2019/20 within the MTFS. The continuing low level of reserves at year end, led the external auditors to continue to qualify the VfM conclusion, although they did recognise the improvements the Council had made.

In 2020/21 the Council's financial performance was significantly affected by the impact of the COVID-19 pandemic and the cyber-attack. The Council delivered a revised net revenue budget of £109.958 million. This position utilised £11.713 million COVID-19 funding received and £3.680 million of grant for the cyber-attack. The net effect of the additional funding that had been received in year, after being offset against unplanned costs, was to enable usable reserves to be significantly strengthened by £13.678 million. We note that within this figure, reserves relating to Business Rates Funding Reserve (£1.404m) and Covid-19 grant funding (£2.445m) have been committed in support of the approved budget set for 2021/22. It should also be noted that the rebuilding of reserves is a key area of focus within the revised MTFS (2020/21 to 2022/23). The windfall benefit from the additional funding received in 2020/21 has served to accelerate the planned process to restore financial resilience.

Financial plans/strategy for the medium term

The current Medium Term Financial Strategy (MTFS) was initially approved in February 2020 and covered the years 2020/21 to 2022/23, following on from the previous three-year MTFS that expired 31 March 2020. The MTFS was revised in February 2021 alongside the approval of the current year budget. Assumptions for 2021/22 and 2022/23 were updated and take into account the longer-term economic impact of COVID-19. However, due in part to uncertainty over the forthcoming government spending review and the aftermath of COVID-19, the Council opted not to roll the MTFS forward beyond 2022/23 at that stage.

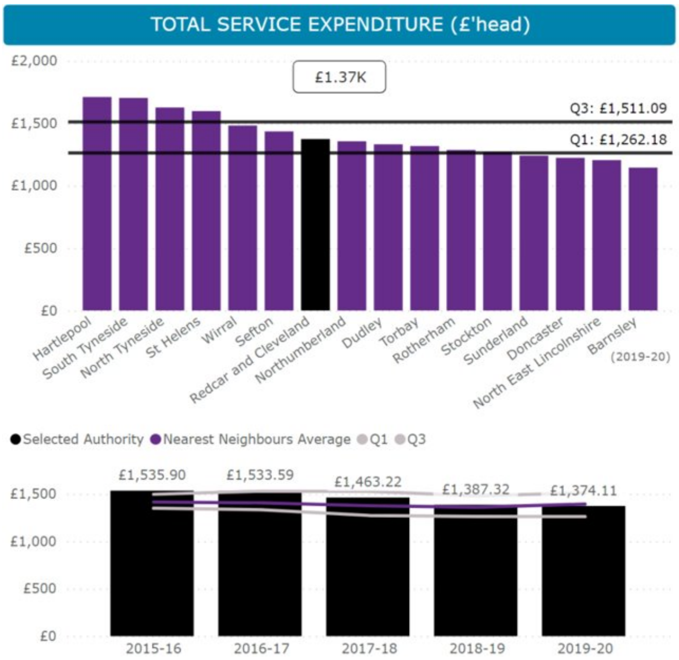
While the current MTFS has been updated and provides some comfort on the financial position over the next 18 months, the current limited forward view is not adequate to help secure the medium-term position beyond this point. The Council acknowledges that the MTFS is in need of review and is in the process of developing a new 5-year MTFS for launch in February 2022.

The current MTFS acknowledges in its narrative that over the last decade the Council has strived to maintain a focus on its priorities and continue to deliver good services, in the context of reducing resources and increased demand for support. In the previous MTFS, part of the strategy for achieving this was the utilisation of reserves to fund expenditure requirements, recognising that this was a temporary measure and that subsequent permanent solutions would be needed. The current MTFS has addressed this, setting a balanced revenue position across the three years without reliance on reserves, and promoting a key focus on financial resilience and sustainability. This also went towards addressing the 'except for' value for money opinion issued by the external auditors.

The current cost of services and capacity to deliver further savings

The latest available benchmarking data, indicates that the Council is in the middle range for expenditure per head overall, in comparison to other similar councils. This suggests that if the Council were to reduce spending per head to match that of Councils the lower quartile, there could be some scope for further savings. While this analysis provides a relatively crude measure of cost efficiency, it indicates the potential value of benchmarking for highlighting lines of enquiry for the development of savings plans and informing strategic discussions. Further discussion of the results of preliminary benchmarking analysis are covered in Section 4.4 below.

Figure 4 Comparison of Total Service Expenditure (£ per head) to CIPFA Nearest Neighbours (DataSource: DLUHC - 2019/20 Revenue Outturn)



The financial implications of the demand/demographic pressures

The statistical landscape for Redcar and Cleveland outlined in Section 3.2, reflects an area with an aging population and high levels of deprivation, even in comparison to the Northeast of England generally. The key areas of investment within the Council's MTFS are broadly consistent with financial pressures that we would expect to arise from this demographic profile, in particular the need to invest in Adult Social Care.

In addition, as noted in the past financial performance above, Children's Social care continues to be an area of in year financial pressure and has been a source of overspending over the past few years. Therefore, it is reasonable that the Council should look to invest further in this service in recognition of these cost pressures.

Significant Investments in Growth, Enterprise and Environment reflect short term issues with Waste that have arisen over the past year, along with the need to compensate for income shortfalls related to COVID in areas such as parking. Again, these investments are reasonable in the context of the challenges faced by the Council.

Income assumptions

The MTFS considers the local implications of the 2021/22 funding settlement. In terms of the government's projected overall increase in core spending power of 4.6%, the Council has recognised that the majority of this does not translate into additional funding allocated by government, because a significant part of this was assumed to come from local council tax increases. The £4.136 millions of funding growth that was assumed for Redcar and Cleveland under the government's core assumptions, had been downscaled to £2.610 million under the MTFS, based on actual council tax base growth and the proposed increases of 1.99% in core council tax and the member decision to limit the increase in adult social care precept to 2% in 2021/22, with the remaining 1% available to be utilised in 2022/23 as permitted.

For 2022/23, a provisional council tax increase of 1.99% has been factored in, with no assumption for an increase in the adult social care precept, which is intended to be considered as part of the budget proposals for 2022/23. This provides some degree of flexibility should financial pressures increase.

Regarding business rates, the Council has budgeted for £37.259 million for 2021/22 reflecting limited growth in comparison to prior year 2020/21.

The Council has also factored in the additional one-off support for COVID-19 recovery for 2021/22, in line with government announcements, including un-ringfenced COVID-19 grant, Income support and the facility to spread the repayment of collection fund deficits over three years. These assumptions drop out as expected in 2022/23.

We note that under the current MTFS, the Council had decided not to amend it original assumptions about how the spending review might affect funding for 2022/23. A key aspect of this was the assumption that business rates would switch to 75% retention in 2022/23, which is the main reason for the increase in net budget moving from £111.869 million in 2021/22 to £128.759 million in 2022/23. While we consider this assumption to be obsolete, we do note that the effect was largely cosmetic. The Council had prudently assumed that this increase would be offset by a corresponding drop in RSG and other grant income contributing to the net cost of services in 2022/23, so no overall benefit was going to be accrued from the decision to continue with this assumption. It could however be confusing for members and the public attempting to understand the changes in funding presented by the Council in the MTFS.

Overall, we consider the estimates of budget position to be realistic over the life of the MTFS within the Council's projected planning horizon of 2022/23.

4.3 Financial resilience

The Council's financial track record of delivering a balanced budget, its proven ability to deliver planned savings, and the adoption of prudent MTFS planning assumptions up to 2022/23, provide comfort that the Council has a sustainable financial position for the immediate future (c.18 months up to the year end March 2022/23). The low level of reserves was a significant concern; however, we recognise that reserve levels were substantially recovered in 2020/21. This was achieved through a combination of effective planning via the MTFS and the robust management of the cost implications of COVID and the cyber-attack during 2020/21, which facilitated the generation of a substantial surplus that was able to be taken to reserves. Review of the Quarter 1 financial monitoring report for 2021/22 does not give rise to significant concern, although we note a reported overspend that needs to be managed.

Timescale and proximity of the MTFS

The limited forward financial view provided by the current MTFS period is sub-optimal (just over 18 months at the time of writing this report). This point is recognised by the Council - the reason given in February 2021 for not extending the MTFS period was that Government had delayed their comprehensive spending review again until Summer 2021 and issued a one-year only settlement for 2021/22. Once this had taken place, the intention was that the MTFS would be refreshed and extended. However, the Council has acknowledged that the spending review may not now be taking place on this timetable and are in the process of developing a new 5-year MTFS which will be launched alongside the 2022/23 budget in February 2022. The preliminary work carried out by the Council is not yet in a suitable condition for review.

Recommendation - always Maintain at least a 5-year MTFS financial planning horizon.

The Council should always maintain at least a 5-year financial planning horizon, through an annual rolling MTFS refresh. A longer financial horizon should be considered on an indicative basis (e.g.10 years). This will help shift thinking away from managing shorter term pressures and risk by placing more focus on building greater financial resilience and financial flexibility over the longer term. This will enable the Council to better anticipate and prepare for future developments and help set aside funds for re-investment in services or invest to save initiatives.

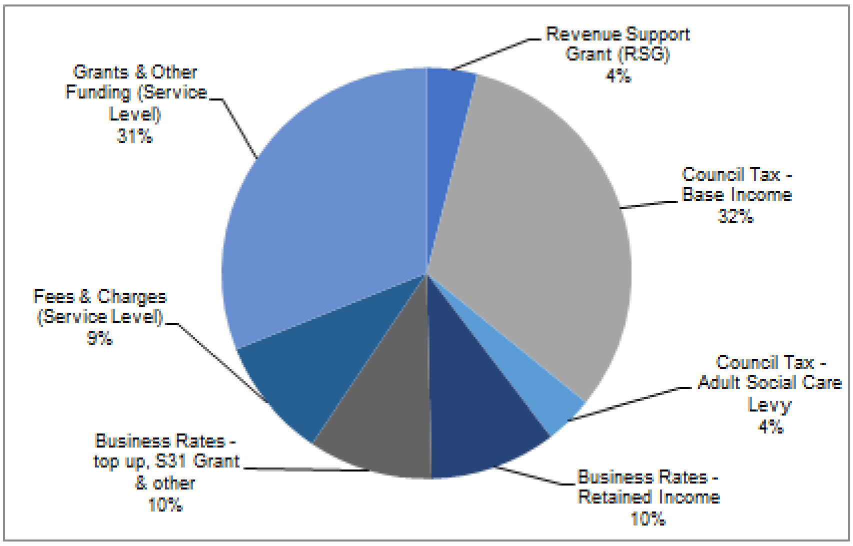
Recommendation - Use of scenario planning in the MTFS to help overcome uncertainties over future funding arrangements.

The Council should make better use of scenario planning in its MTFS to help overcome uncertainties over future funding arrangements (such as inflation, interest rates and social care demand). This could be particularly helpful in regard to communication with members and the public, when setting savings targets or bringing forward potentially difficult decisions around services. In this way, the importance of managing financial risks over the medium term can be re-emphasised to members, providing greater balance and depth to the discussion around future service provision, and helping them manage the messaging with the wider public.

Sources of income and reliance on government grants

The Council is relatively reliant on government grants and other sources of income to fund services, including being in receipt of a significant business rate top-up grant. There is therefore a limit to the additional impact that growth in local taxation can have on the overall picture in themselves (for example, the impact of the Adult Social Care Precept). However, this does potentially reduce the vulnerability of council funding to local economic shocks affecting council tax and business rate collection. Funding for the net service budget for 2021/22 (excluding schools and housing benefit) can be broken down as follows:

Figure 5 Sources of Funding (Gross) Excluding Schools and Housing Benefit (DataSource: MTFS)



The above analysis excludes schools and housing benefit funding from the gross profile as they comprise large values that broadly net off against council costs and would otherwise distort the analysis.

We note that the level of business rates that the Council actually collects is lower than the DLUHC planning estimate in calculating spending power and this deficit is borne by the Council (£2.259 million). This has been the case for a number of years, with the Council bearing a total shortfall of £13.529 million since 2014/15. The Council is hopeful that future business rates reform will correct this imbalance. Grants and other Funding refers to a range of service level income such as Public Health Grant and Better Care Fund income, that are presented as part of net service costs.

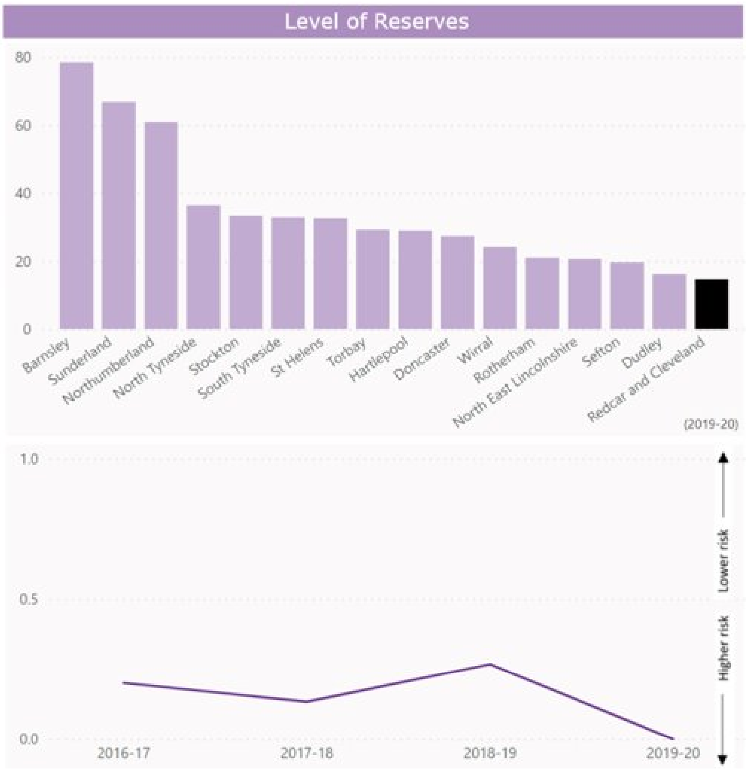
General health of the reserves position

As noted in section 4.2 above, the Council was able to transfer £13.678 million to General Fund Reserves in 2020/21, significantly accelerating its MTFS priority to restore reserves to comparatively healthy levels.

In previous years the Council had relied heavily on reserves to cover operational deficits in 2018/19 and 2019/20, while action was taken to rebalance the budget. This had resulted in reserves being significantly depleted which had caused significant concern to the external auditors (Mazars) and led them to issue a qualified VfM conclusion for 2018/19 and 2019/20.

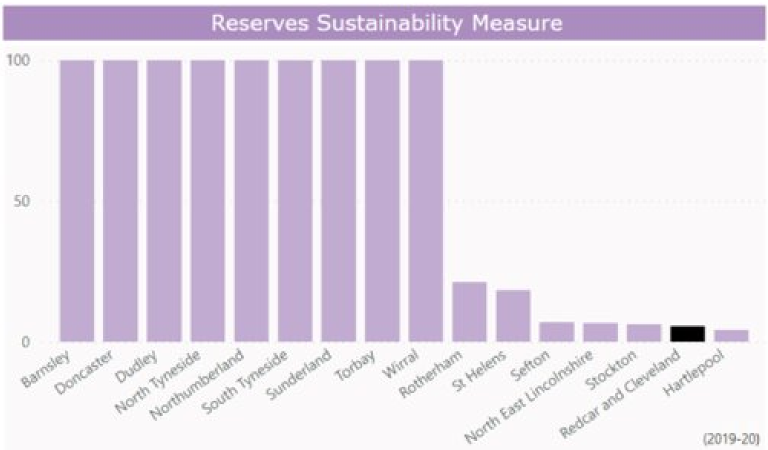
This is reflected in the most recent benchmarking analysis based on 2019/20 outturn, which shows the Council as having the lowest level of reserves as a proportion of net revenue expenditure within the nearest neighbour group (see below). However, for comparison, in 2020/21 the Council's opening usable reserves had increased to £31.707 million, approximately 28% of the Net Service Budget of £111.869 million. If it is assumed that the proportions were maintained for other comparable councils in 2020/21, Redcar and Cleveland would be comfortably placed around the average for the peer group.

Figure 6 Comparison of Reserves as a Proportion of Net Revenue Expenditure (%) to CIPFA Nearest Neighbours (DataSource: DLUHC - 2019/20 Revenue Outturn)



Had the Council remained on this trajectory, the implications for financial resilience could have been severe. The reserves sustainability indicator is the ratio between the current level of reserves and the average change in reserves in each of the past three years. The indicator provides a measure of how long (in years) it would take for a council to completely denude its reserves, if they continue to use reserves at the same rate as in the previous three years. This suggests that there was a risk that the authority could have run out of reserves within 2-3 years at that rate.

Figure 7 Comparison of Reserves Sustainability Indicator (Years) to CIPFA Nearest Neighbours (DataSource: DLUHC - 2019/20 Revenue Outturn)



Recommendation - Ensure continued focus on preserving current reserve levels.

It is important that having been able to rebuild reserves in 2020/21, significantly improving financial resilience, the Council does not lose focus on its drive to deliver services in line with its funding envelope. Senior management should continue to engage with members to safeguard reserves as a priority, and where surpluses are generated, to redirect these towards funding for service investment and to reduce the need for borrowing.

The Council's recent track record in setting a balanced budget

As previously noted in section 4.2, the Council has historically been able to set a balanced budget from within its own available financial resources, including the use of reserves. Significant additional costs were incurred during 2020/21 from COVID-19 and the Cyber-attack, which presented a significant financial risk to the Council's financial resilience, particularly in the context of the limited usable reserves available at the start of 2020/21 to absorb this. However, the exceptional nature of both of these events was recognised by DLUHC and the UK Government and grant funding was made available to the Council using the same formula that had been applied to other Councils in regard to COVID, and in line with past precedent for dealing with cyber-attacks on local authorities. Therefore, the Council's reliance on exceptional grant to deliver a balanced budget in 2020/21 and to enable it to set one for 2021/22 is not an indication of an underlying structural risk to financial resilience. We would also re-iterate that the Council did not take up the option to implement a capitalisation direction, preferring to manage residual pressures from the cyber-attack from within its existing resources and grant allocations.

Financial Summary of Key Services

Council services have generally worked to within their allocated budgets over the last 3 years, however, there have been a pattern of overspends, which have had to be managed, including through the use of reserves. A summary of budget performance across the three main service directorates is as follows:

- Adults & Communities has received significant additional investment over three-year period, including enhancements to the Better Care Fund and specific Adult Social Care Grants provided by government. The Directorate delivered effective breakeven in 2018/19, and underspends on budget in 2019/20 and 2020/21 with surpluses contributing to a service level earmarked reserve. The directorate costs appear to be relatively stable and managing within the budget envelope.
- Children & Families has been under significant financial pressure, primarily from increases in demand and the unit cost of care. A significant overspend of £4.938 million was incurred in 2018/19 on a net budget of £37.542 million, which was attributed to significantly increased numbers of children in care and the cost of home to school transport. In 2019/20 these pressures had been brought under control and the overspend was more modest, at £0.744 million. In 2020/21 the service was affected by COVID-19 related pressures and the effects of this and the Cyber-attack which interrupted savings plans to reduce placement costs. As a result, the Directorate exceeded its revised budget by £1.290 million. In common with many councils, the Children's and Families budgets have been under significant pressure over the past three years but, taking into account COVID-19 and the Cyber-attack affecting 2020/21, these pressures are currently being managed. There are a number of initiatives underway to help address these pressures, including the development of a new Fostering Service and the acquisition of a legal services provider which will help manage cost.

- Growth, Enterprise & Environment saw modest overspends in 2018/19 and 2019/20 on a relatively small budget. In 2020/21 additional services were transferred to it, resulting in a revised budget of £30.384 million. In 2020/21 the directorate incurred an overspend of £1.911 million. This was attributed to COVID-19 pressures, particularly lost income not covered by the government compensation scheme (£1.300 million), and issues with waste collection (£1.200 million). This was offset by savings made from the renegotiation of the concessionary bus fares contract, which was able to be delivered to plan. Again, taking the exceptional circumstances of 2020/21 into account, there is no indication of underlying structural issues with the delivery of the budget.

The ability of the Council to meet pressures through its own resources.

The current MTFS and the Council's track record of financial management and savings delivery, together with the significant improvement in the reserves position in 2020/21, enables us to have confidence in its financial resilience over the next 1-2 years. We expect the council to be able to meet future cost pressures through its own resources. The Council does not require a capitalisation directive from central government at this time.

Management of earmarked and non-earmarked reserves

As at the start of the current financial year 2021/22, the Council has set aside General Fund Reserves of £31.707 million against a net budget of £111.869 million. Our benchmarking of reserves suggests that although the current level of reserves is around the average for similar councils in 2021/22, should these be significantly depleted below this level, the Council would again face a significant financial resilience risk. However, for illustration, the combined value of the MTFP, Strategic Change and Resilience, and Directorate level reserves as at year end March 2021 would in theory, be available to help absorb up to £17.300 millions of unplanned cost pressures without recourse to emergency measures. This is significantly greater than the combined net call on reserves in 2018/19 and 2019/20 (£12.332 million). This provides some comfort that the Council is financially resilient in terms of the reserves available to manage financial risk.

Reserve description	Value at 01/04/21 £ Million	Purpose
General Reserves	5.203	General balances representing a minimum floor provision of 5.0% of the Council's net budget.
MTFP Reserve	7.806	Used to manage the volatility of the assumptions around the Medium-Term Financial Strategy.
COVID-19 Grant Funding	2.445	Earmarked to support short term COVID-19 pressures in 2021/22.
Strategic Change and Resilience	1.000	A new reserve created to build the financial resilience of the Council.
Other specific reserves	7.759	Includes a range of smaller reserves to cover specified risks and liabilities including PFI, business rates and insurance.
Directorate Reserves	8.494	Directorate level reserves that can be used to manage in year pressures. Built from unused non-ringfenced grant income, income from trading or amounts to cover future year spending commitments.

TOTAL	**31.707**	

Opportunities for further revenue cost cutting

In addition to the ability to manage risk through reserves, discussion with the client and the benchmarking of services suggests that there remains some scope to make further efficiency savings. However, following 10 years of cost reduction due to austerity, any savings are increasingly likely to need to come from generating additional income or reducing service provision.

As previously noted, the Council is in the process of updating its MTFS for the next 5 years. In addition to developing long term savings plans, the Council also hopes to derive increased financial benefit in the medium to long term from the opportunities provided by the new Freeport, particularly in regard to investment in local employment and infrastructure, and increased income from retained business rates (or its successor). Part of the focus of the next MTFS will be on bridging the financial gap in the short to medium term before the longer-term economic benefits can start to accrue.

Other underlying drivers of financial fragility or risk.

In common with many Councils, the Council has accumulated an unfunded deficit due to unresolved issues with the way that the High Needs elements of the Dedicated Schools Grant are funded by the Department for Education. The deficit was £2.407 million at the start of 2020/21 and is currently projected to be £2.763 million. This negative reserve has been treated separately from the Council's other reserves in line with CIPFA guidelines and the Council are not expected to cross-subsidise or fund this shortfall from the revenue budget or other ear-marked reserves. Nevertheless, it is important for the deficit to be reduced over the medium term. We note that various actions are being undertaken to address the deficit.

Recommendation – Review progress on DSG deficit reduction.

The Council should continue to implement and monitor its DSG deficit reduction plan and make sure that sufficient progress is being made over the medium term.

4.4 Efficiency of service delivery

High level benchmarking of service costs, based on the most recent data (RO 2019/20) can be a useful guide to relative cost efficiency of Council services, but would require further detailed work before firm conclusions could be drawn.

The statistical landscape for Redcar and Cleveland outlined in Section 3.2, reflects an area with an aging population, high levels of deprivation, even in comparison to the Northeast of England generally, together with unemployment above the national average. This is consistent with a higher cost per head of population for Adult Social Care and Public Health. General Fund Housing costs per head (including Homelessness) are often associated with high deprivation, but costs benchmark as close to average and it may be that this is partly counterbalanced by comparatively good levels of employment in comparison the rest of the Northeast. The Council is in the middle range for the cost of Children's Services, although this has been a key area of overspending on budget in recent years. The Council appears to spend a relatively high amount on Environmental Services which may be worthy of further investigation.

Recommendation - Look for opportunities to make more use of detailed benchmarking information to challenge services.

The Council should consider how it could make more use of detailed benchmarking information to challenge services, generate lines of enquiry for potential cost savings and income generation. Used correctly, benchmarking based service reviews can overcome challenges around data quality and be very useful in focusing effort and identifying short term opportunities, as well as contributing to the development of service transformation initiatives, delivering benefits over the medium to long term. Part of this process should be to help identify sources of potential best practice within other councils, prompting useful conversations and learning opportunities.

Figure 8 Adult Social Care (£ per head) to CIPFA Nearest Neighbours (DataSource: DLUHC - 2019/20 Revenue Outturn)

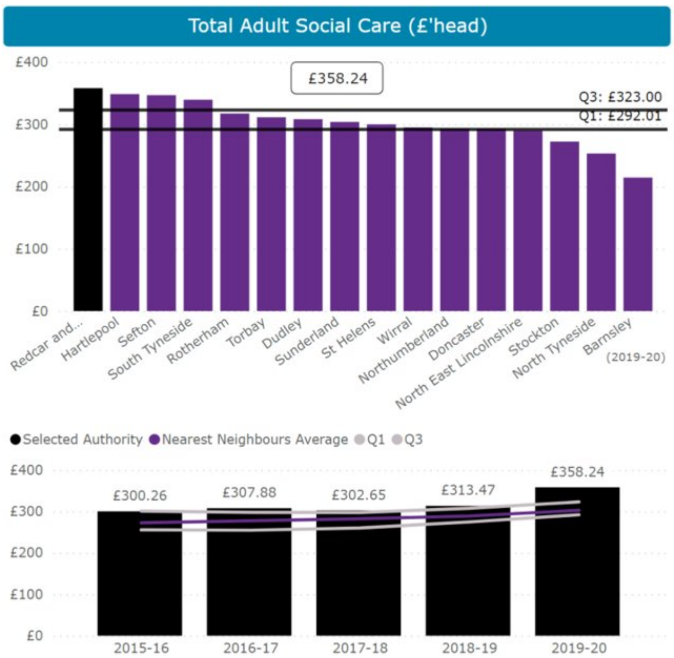


Figure 9 Childrens Services (£ per head) to CIPFA Nearest Neighbours (DataSource: DLUHC - 2019/20 Revenue Outturn)

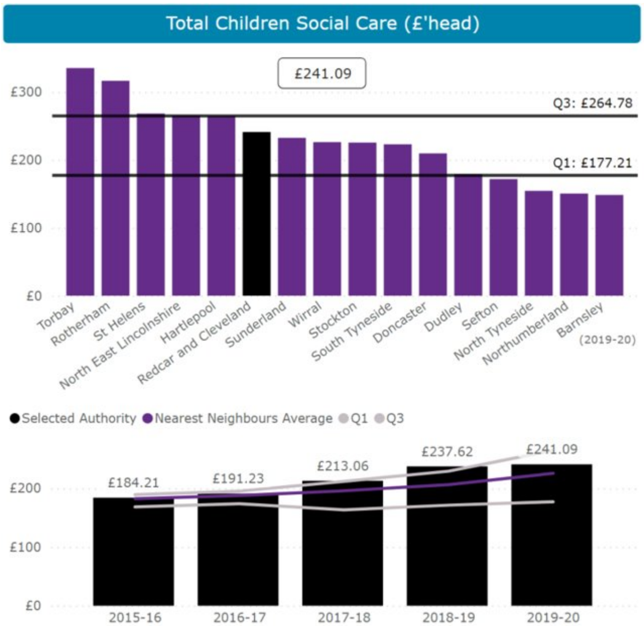
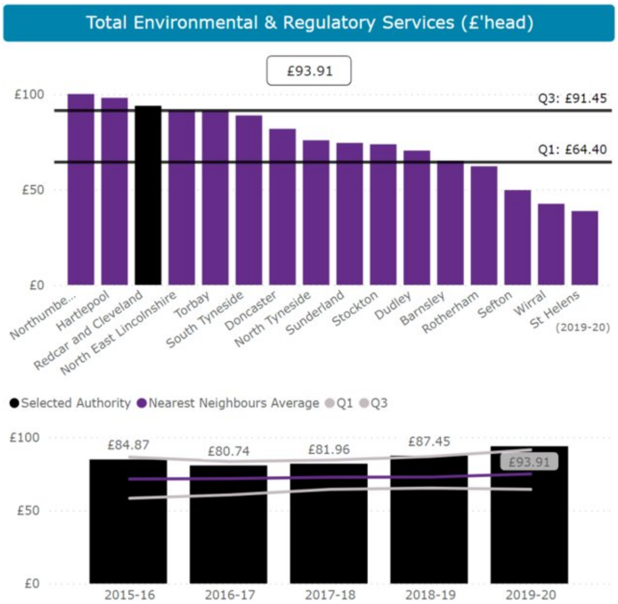


Figure 10 Environmental and Regulatory Services (£ per head) to CIPFA Nearest Neighbours (DataSource: DLUHC - 2019/20 Revenue Outturn)



4.5 Key recommendations

Number	*Recommendation description*	*Proposed owner*	*Timescale (Immediate, within one month, within six months)*
4a	Maintain at least a 5-year MTFS financial planning horizon at all times.	*Director of Finance*	Within 6 months

4b	Use of scenario planning in the MTFS to help overcome uncertainties over future funding arrangements.	*Director of Finance*	*Within 6 months*
4c	Ensure continued focus on preserving adequate reserve levels.	*Director of Finance*	*Immediate*
4d	Review progress on DSG deficit reduction.	*Director of Finance*	*Within six months*
4e	Look for opportunities to make more use of detailed benchmarking information to challenge services.	*Director of Finance*	*Within six months*

5. Authority's approach to financial management

The Council has established robust financial management arrangements over the past two years, alongside the new management team. The finance team appears to be lean and senior budget holders feel well supported by finance officers with a good balance of skills and experience. The finance team works closely with service budget holders to ensure a robust budget planning and monitoring process is followed. This arrangement was severely tested by the cyber-attack and the implications of COVID-19 but was able to maintain effective financial control and operate payroll and other key functions throughout.
We note that the Council leadership team is particularly financially literate and supports a strong culture of financial governance, with both the Managing Director and Director of Adults and Communities both being qualified accountants, in addition to the Finance Director (S151). The leader and other cabinet members also present a strong financial focus.

The financial planning process is well established with the MTFS being refreshed alongside the annual budget, culminating in approval by Cabinet and Full Council in February each year. The current arrangements appear to work well, with budget holders and the finance team working together to establish the baseline rollforward budget, identify pressures and develop savings plans sufficient to close any funding gaps (helping to protect reserves). In section 4.3 we have commented on the need to maintain at least a 3 year and preferably a 5-year MTFS planning horizon. The current 2-year MTFS is not sufficient, and we have commented in section 4.2 on how the Council might approach planning for financial uncertainty, for example, in regard to future funding settlements.

Financial monitoring at Directorate Management level and by the Executive Management Team. This feeds into the quarterly reporting of the financial position to Cabinet, with papers made available to the public. The Agresso ledger system has been developed to encourage budget managers to manage their resources directly and efficiently, enabling finance officers to support them in a business partner role. The financial systems are being developed to further improve budget manager engagement, are planned in the coming years to encourage more autonomy for budget managers and improve the quality of the information they have access to.

The quality of financial reporting is clear and comprehensive, with good use of tables, charts and narrative explanation to aid the reader and to engage members. We note that corporate performance reporting (e.g., against non-financial KPIs) is currently reported separately to financial performance. We also note that many of the key messages are delivered within numerical tables supported by a concise narrative.

We also note that the first Quarter 1 budget report is generally presented to Cabinet in September which is 6 months into the financial year. While we recognise that there are cost implications for faster reporting, our experience demonstrates that financial issues can escalate quite quickly particularly when linked to sudden or unexpected events. In this case, inviting member scrutiny earlier in the process can improve the options available to officers to manage risks, for example, if there is likely to be a need to implement additional savings plans of freeze expenditure.

Recommendation - Bring forward quarterly reporting of the financial position to members
The Council should consider the value of bringing forward the quarterly reporting of the financial position to members or look at alternatives such as presenting a Month 2 position, a higher-level summary of the monthly position or a process of reporting financial variances by exception where they pass agreed thresholds.

Recommendation - Use integrated reporting that considers financial performance alongside service performance
The Council should consider the use of integrated reporting that considers financial performance alongside service performance targets, selected demographic and other contextual analysis and staffing KPIs. This can help members and the public to consider financial resources in the context of wider value for money and effectiveness.

Recommendation - Develop and adopt a financial performance dashboard

The Council should consider adopting a performance dashboard style of report, that presents key financial information in a way that immediately draws the attention of members to key issues and enables them to assess relative priority and urgency - e.g., use of traffic lighting, priority ratings and/or direction of travel (i.e.to indicate whether the risk is increasing or decreasing). This can help facilitate engagement and lead to a more action focused discussion at committee. This approach would also support integrated reporting.

5.1 Adequacy of existing financial management practices

The Council has demonstrated robust financial management practices to deliver a stable financial position in 2020/21, with the expectation that this will continue for at least the remaining period of the MTFS. As noted in section 2.1, we note that the exceptional financial support received (EFS) was directly attributable to the cyber-attack in February 2020/21 and was not a reflection of any issues with the Council's wider financial management. The executive team and the Council as a whole reacted well to the challenges of the cyber-attack and COVID-19, as is demonstrated by the stabilised financial position in 2020/21.

We note that that the Council's head of internal audit was an external provider and was new in post for 2020/21. Their view based on the first year of working with them was that the Council's finances were well administered and had adequate to good financial controls. The Internal Auditor's opinion for 2020/21 indicates that overall, systems and controls would be assessed as giving 'Reasonable Assurance', which reflects good overall performance.

The external auditor had raised concerns about the low level of reserves in both 2018/19 and 2019/20, and the serious implications this had for financial resilience, culminating in a qualified Value for Money Conclusion in both years. However, since this time the external auditor indicated that subject to the completion of the current year's audit work, they expected to report that the Council had resolved its issue of having low levels of reserves for 2020/21, effectively lifting the qualification. They did not raise any significant concerns about the approach to financial management or the financial outcomes being delivered.

5.2 Approach to transformation and savings

The Council has a reasonably good track record in delivering transformational savings under its 'Shaping our Future' programme and its successor the 'Driving Change' efficiency improvement programme. The narrative context provided by the Council in presenting its financial outturn to date, is that between 2010/11 and 2018/19 it had delivered in excess of £90.5 millions of cost reductions and reduced its workforce by 1,400.

In subsequent years, savings plans were set, and performance reported, as follows:

Year	Net budget £ Million	MTFS Savings Planned £Million	MTFS Savings Delivered in Year £Million	Percentage of Savings Plan Delivered in Year

				£Million
2018/19	106.546	11.337	10.518	92.8%
2019/20	101.953	5.457	5.457	100%
2020/21	109.958	4.089	2.351	57.5%
2021/22	111.869	2.086		
2022/23	128.759	2.683		

- In 2018/19 the Council successfully delivered £10.518 million of savings representing 92.8% of what had been planned. A further £0.344 million of amber rated savings were deferred to the following year.
- In 2019/20 the Council delivered £5.457 million of planned savings delivered in year within this position, representing 100% of what had been planned.
- In 2020/21 the Council's financial performance was significantly affected by the impact of the COVID-19 pandemic and the delivery of the planned MTFS savings in year (£4.089 million) was significantly disrupted. As a result, only £57.5% was reported as achieved (£2.351 million). We note that the shortfall incurred in 2020/21 was significantly affected by the impact of the Cyber-attack and COVID-19 on services, and these issues were reflected in the budget pressures reported in year.

The savings plans in place for 2021/22 and 2022/23 are relatively modest in comparison to what has been delivered in prior years (in both cases reflecting less than 2% of net budget in year). The savings have been set against specified plans set out by the directorates and are typically phased over the 2-year period. Although further work is needed to fully develop plans for 2022/23, the savings programme seems reasonable in terms of value and within the context of Council operations. Key highlights include:

- The early intervention and prevention agenda across Adults and Children's social care is planned to contribute £1.425 million in both years, primarily from the Edge of Care Strategy for Children and Families and the Supporting Independence Strategy for Adults and Communities.
- Streamlining and Cost Control is scheduled to save £0.884 million including further streamlining of management structures and renegotiation of concessionary fares contributions from 2021/22.
- Investing for the long term is expected to deliver savings from joint working and invest to save initiatives of £1,250 million from 2022/23 onwards.
- Other initiatives include £0.300 planned to be raised from a review of fees and charges.

The savings are net of £0.885 million of additional capital financing costs phased over 2 years.

We note that, in line with good practice, the Council routinely reports quarterly progress against the savings plan by directorate, separate from the overall budget position.

We note that the Council is currently developing its new 5-year MTFS which will be accompanied by a revised savings and transformation programme. We note that within the current MTFS, the savings targets are relatively modest and achievable which reflects the Council's relatively stable financial position. The Council is continuing to address financial pressures in areas such as Children's (notably the Fostering Service and Legal Provider). However, there is currently no immediate need for a large-scale transformation programme.

Recommendation - Improve the link between the savings programme and scenario planning outcomes.

The Council should consider improving the direct linkage between the savings programme and the outcomes from scenario planning – in particular, planning how the increased funding gap projected in adverse scenarios around the fair funding review and business rates reform, could be mitigated by additional prioritised savings.

Recommendation - Develop savings in advance of what is required for the central MTFS scenario, in order to increase financial flexibility.

The Council should consider looking to develop savings in advance of what is required for the central MTFS scenario, in order to increase financial flexibility. This could help the Council to maintain reserves at the current 'median' level in comparison to other similar councils in the event of slippage within the MTFS. However, it could also be used flexibly, to increase the funding available for investment in service transformation or reduce the need to borrow to fund capital projects. It could be used to promote innovation, enabling services to bid for funding for new community initiatives, updated technology, partnerships and new ways of working. It could also support a move towards outcomes based budgeting or similar methods. Conversely, this funding could also be used as part of a strategy to build 'headroom' and mitigate against adverse financial scenarios.

5.3 Recommendations

This section will set out the key recommendations to improve the authority's financial arrangements:

Number	***Recommendation description***	***Proposed owner***	***Timescale (Immediate, within one month, within six months)***
5a	Bring forward quarterly reporting of the financial position to members.	*Director of Finance*	*Within six months*
5b	Use integrated reporting that considers financial performance alongside service performance.	*Director of Finance*	*Within six months*
5c	Develop and adopt a financial performance dashboard.	*Director of Finance*	*Within six months*
5d	Improve the link between the savings programme and scenario planning outcomes.	*Director of Finance*	*Within six months*
5e	Develop savings in advance of what is required for the central MTFS scenario, in order to increase financial flexibility.	*Director of Finance*	*Within six months*

6. Council assets and other commercial interests

The Council recognises that it could reduce its main office sites from 3 down to 2. However, this is problematic due to two of these sites being on PFI contracts which are due to expire in 2027.

The Council has commenced a 6-month hybrid working pilot after discussion and agreement with unions. This should be progressed to support further rationalisation of assets where possible.

The asset disposals programme has delivered significant savings over the last 10 years; however, the volume and value of assets being released more recently has slowed.

The service is undertaking a variety of Town Plans to deliver upon the Asset Management Plan and release additional built assets. The Council has recently shifted its approach from reviewing the assets on a locality basis, to service based. This change has been made to improve the pace of delivery and to place more emphasis on service and place needs, which would be representative of best practice. The first service which this new approach has been taken is the Library Service, with this plan in draft stage. As per Libraries above, Council-wide strategies, to facilitate further asset disposals, could be considered for Leisure, Adults, Childrens and Public Conveniences.

Whilst progressing at a good pace, the Service could benefit from some additional capacity in the team to speed up the delivery of the major strategic projects currently being progressed, namely the implementation of TF Cloud, the development of Town Plans and assets earmarked for disposal. However, steps have already been taken to increase the pace of change, namely the change to the Town Plans listed above, to speed up implementation.

The total number of Assets, based on the information provided by the Service, is summarised in the table below:

Building Type	Volume	Building Type	Volume
Adults	11	Land**	245
Caretake House	12	Leisure	5
CAT/Licensed	37	Library	10
Cemetery/Church	5	Office	7
Childrens***	12	Pavilion	2
Culture	2	Public convenience	11
Depot	2	Youth Centre	9
Golf	1		

It is the intention of the Council to move to more of a hybrid working mode and the Council has already began conversations with unions around implementing a 6-month hybrid working trial. There is currently a 6-month pilot on-going to gather information what works for each service area.

However, it is recognised that occupancy is likely quite low, and that the Council has too many office buildings. Indeed, the Service estimates that of the 3 key office buildings, Redcar and Cleveland House, Seafield House and Belmont House at least 1 of these could be released. However, this would be practically difficult, with Seafield and Belmont being PFI buildings with final payments due to be made in May 2027. On these 2 sites, the Council has a final £14m to pay over the final 6 years.

Each of these sites has a similar number of desks, ranging from 291-365, and similar Gross Internal Area 2719 to 4241m2. A priority area, which the Council is already working on alongside the LGA, is a detailed review on the future of these assets linked to the adoption of a more hybrid working style and whether an early termination of the PFI contracts is possible.

However, it is important to note the high running costs of these sites due to them being PFI contracts, with Belmont c£642k per annum, and Seafield £524k per annum. This compares to Redcar and Cleveland House of £280k which is also the biggest.

The Service has had significant success with either the Community Asset Transfer (CAT) of several assets and/or the transfer of assets under license to several community groups. Indeed, many of these sites have been transferred under full repair and license, meaning the Council has divested many of its responsibilities and revenue expenditure at these sites.

A number of these building types appear high considering the size and scope of services at Redcar and Cleveland House, in particular this includes Childrens, Leisure, Adults, Public Conveniences and Youth Centres. This is discussed in more detail below.

Adequacy of estimates for capital receipts:

The Property team maintains a detailed list of historic disposals and those which are upcoming. Whilst it is difficult to estimate capital receipts prior to the actual sale of an asset, this list does also project the capital which is likely to be generated. This list identifies 7 sites which the Service will aim to deliver before the end of 2021/22, and which will generate a total of £1.95m in Capital receipts. In addition to these sites, there are a further 10 which are primarily land assets, which the Service are aiming to complete before the end of 2022/23, however no value has been attributed to these sales.

- In addition to the above, there are a further 19 sites earmarked for disposal, however there is no value projected to these sales.
- Separately, as discussed in the Councils Asset Management Strategy, the Property team are undertaking the development of several Town Asset Plans. To date the service has completed 2 plans, with a specific plan for the Library assets due to be submitted to Cabinet in September.
- The completed plan which covers the Town of Skelton is developed logically with a clear appraisal of the likely savings and capital receipts to be generated. This is scheduled to deliver c£25k per annum in revenue savings, generate a capital receipt of £75k, and avoid capital maintenance costs of £65k over 5 years. In contrast the plan for Grangetown does not as yet contain any financials which would be considered acceptable given the stage that the plan is at, however savings are not anticipated to be as high as the Skelton plan.

Feasibility of any additional asset disposals:

Whilst there are several assets which have been earmarked for disposal, this is predominately land assets, with very few buildings scheduled for release. The main project which will inform the disposal of built assets will be the Asset Town Plans. As above, the approach to these plans has recently been changed to increase the speed of delivery and to capture overlay future Service-based strategies. This approach would be supported, as if the Council were to approach asset disposals on a town-by-town basis, the plans may have failed to consider whether a service should be located in a town in the first place, and rather focused on accommodating the Service within that town.

One example of this new approach is the is the upcoming plan for Libraries which is due to be presented to Cabinet in September. Both the Property team and the Library Service recognise the potential for asset disposals which would allow the library team to focus on the remaining assets and improve their relative value. This is reflected in the draft which proposes a reduction to the volume of buildings and single service properties.

As a whole, the development of the Accommodation plans is a positive and is representative of best practice and where assets are identified as surplus, these should be disposed of to ensure reduced revenue expenditure, generate capital receipts, and reduce maintenance liabilities. The Council is progressing this at a positive rate, given the relative financial position of the Council, which it is acknowledged, does not impose a pressing need to dispose of significant assets at pace to reduce the need for a capitalisation direction.

Use of asset sales as means to raise receipts and reduce risk where appropriate and minimise borrowing:

The Property team has a recurring Capital budget of £500k to spend on maintenance works. This is a positive as having a consistent budget for Capital works has allowed the Property team to strategically develop a maintenance programme which they know they have the budget to deliver.

Previously, the capital works programme had not been developed ‘scientifically’ and had more been informed by local knowledge of the assets and immediate need, with works being performed reactively. To mitigate this, the Property team commissioned a series of Condition Surveys in 2018 and now have a thorough understanding of the backlog maintenance across the Councils estate, estimated at £10m over 5 years and £20m over 10.

Typically, the Council will look to capitalise all works above £10k and will also look to accumulate smaller works into larger projects at a site to raise the value of works above this threshold.

It is apparent from a review of the Skelton Town Plan that Capital maintenance requirements are factored into the rationalisation of assets and the financial plans. For example, the asset which this plan identifies for disposal, the Skelton Branch Library, should save the Council £55k over a 5-year period. Likewise, whilst not leading to a disposal, the Grangetown plan considered several assets for release, but with no significant capital requirements at either site in the next 5 years, and low running costs, the decision was taken to retain the assets.

The authority’s approach to asset management and whether the authority has an up-to-date asset strategy and asset plan.

As discussed elsewhere in this report, the Council have developed an Asset Management Strategy covering the period 2020-25. The strategy is robust, detailed and clearly sets out the intentions of the Property team. Following the development of the Strategy document, the Property team initially attempted to develop an Asset plan for the entire borough.

However, the team found this to be ‘too big too soon’, and instead began approaching the rationalisation piece on a town-by-town basis.

The first step in the development of the Town Plans will be for the Property team to undertake an initial appraisal of the assets within the area, including their capital maintenance requirements and utilisation etc. before approaching service areas with their suggestions. Engagement with Service Areas is key to any asset disposal, and it is clear from the two Accommodation Plans produced to date that the Property team has engaged fully. As demonstrated by both plans, frontline services have been receptive to suggestions, An Asset Management group has been formalised to continue this approach and facilitate these discussions.

Positively, the Council has a Programme Management Group in place which meets fortnightly and is used as the initial governance chamber for Property decisions discussing allocation of capital expenditure, compliance reporting etc. and is used to discuss strategic property decisions.

The Council has begun the process of transitioning to Techforge with the initial contract signed in June 2020. Compliance information, Helpdesk functions and systems required for the raising of works orders with the DLO have already gone live, however the full project is scheduled to take 2/3 years in total. Remaining modules which are yet to go live include aspects of Capital Project Management, Energy Management etc.

What assets has the Council sold in the last three years to mitigate financial pressures?

The below summarises the assets which the Council has disposed of over the last 10 years, and also projections for 2021/22 onwards:

Year	Value	Volume	Year	Value	Volume
2011/12	£1,657,000	16	2018/19	£374,000	4
2012/13	£2,278,000	16	2019/20	£350,000	2
2013/14	£2,076,000	16	2020/21	£982,000	4
2014/15	£2,427,000	14	2021/22	£1,950,000	9
2015/16	£782,000	9	2022/23	TBC	10
2016/17	£7,601,000	8	TBC	TBC	19
2017/18	£5,478,000	9			

The table highlights that over the last 10 years the volume of disposals per annum has been steadily falling. Likewise, with the exception of 2016/17 and 2017/18, the value has also fallen. However, the Service does estimate 2021/22 will see the disposal of 10 or more assets for the first time since 2014/15 with the value of disposals also increasing significantly.

As would be considered typical, the majority of the assets released are land, with very few built assets included in the disposals list. This is mirrored in the two Accommodation Plans completed to date which include the disposal of one built asset. However, the lack of built assets included in the disposal list is not necessarily an issue, and as is clear from the

Skelton Accommodation plan, where the disposal of a built asset meets the strategic priority of the Council, then buildings will be released.

All revenue budgets for the delivery of Facilities Management (Cleaning, Caretaking, Repairs and Maintenance) services and Utilities etc. are centralised under the Property team. This is a practice which would be encouraged as it allows for greater strategic control of budgets and spend, and ensures decisions are taken in conjunction with the long-term strategy for the assets.

The Council employs an in-house team for the delivery of Cleaning, Caretaking, and some Repairs/Cyclical Maintenance tasks (3x electricians, 3x plumbers, 3x heating engineers, 1x labourer, 1x joiner). In addition to the in-house R+M team, the Council also uses a range of local suppliers to deliver other repairs and maintenance tasks and has several small contracts in place for compliance works.

Budgets held by the service for R+M tasks include £180k for reactive tasks, £350k for general maintenance, and £380k for statutory obligations. Given the scope of this review, the relative value of this spend has not been appraised, however proportionately the statutory obligations budget does seem high, although a degree of fluidity would be expected between what tasks is allocated to what budget. Tasks required to ensure statutory compliance have been developed over time in conjunction with the manufacturer's recommendations.

The delegated authority of the Property team is limited to tasks under £10,000. Given the scale of the assets being maintained by the Service, it is unlikely that the volume of works over £10k will be high, however where this does occur the Council do have an emergency Delegated Authority procedure in place to ensure tasks can proceed at pace if needed.

Whilst a full cost breakdown of the staffing structure has not been seen, it should be noted that Caretaking and Cleaning, which have a combined spend of c£1.128m, have a vacancy factor or ‘abatement’ of £260k. This is included as a consequence of services frequently having vacant positions in the structure but does mean that it can be difficult to identify the baseline budget. This practice is understood to occur Council-wide.

The Council have undertaken several projects to reduce energy consumption, including LED replacements across all streetlighting stock, whilst the Council is currently delivering a £426k externally funded decarbonisation programme across the Council’s assets.

6.2 Capital programme

The Council’s capital programme has been reviewed and it set over a rolling 4-year capital plan which is set out below reflecting a £112.310 million investment programme.

Capital Block	2020/21 £'m	2021/22 £'m	2022/23 £'m	2023/24 £'m	Total £'m
Town Scape Investment	2.555	9.206	12.463	4.995	**29.219**
Visitor Attractions & Amenities	4.313	9.854	0.105	0.050	**14.322**
Business Infrastructure	1.354	4.264	2.870	-	**8.488**
Transport Infrastructure	7.088	6.140	3.770	3.500	**20.498**
Housing	0.159	0.150	-	-	**0.309**
Supported Housing	0.780	1.300	1.300	1.300	**4.680**
Community Capacity	0.359	0.250	0.216	-	**0.824**
Recycling & Waste Initiatives	0.174	0.550	0.100	0.100	**0.924**
Education	3.677	2.575	1.650	0.175	**8.077**
Council Investment	6.778	6.256	5.940	5.995	**24.969**
Total	**27.237**	**40.544**	**28.414**	**16.115**	**112.310**

The capital programme is representative of a typical regeneration programme. The broad funding sources over the five-year programme are:

Funding Source (2020-24)	**£'m**
Capital Receipts	4.035
Prudential Borrowing	36.895
Capital Grants	71.356
Revenue budget contributions	0.025
Grand Total	**112.310**

The additional borrowing will significantly increase the Minimum Revenue Provision required each year. The Council holds revenue budgets for gross capital financing costs totalling £20.318 million (18% of the net revenue budget for 2021/22). Based on the Council's current gross debt to CFR, the Council inadvertently over-borrowed to finance capital expenditure in 19/20.

Table 4 – Prudential Indicator – Gross Debt and the Capital Financing Requirement

	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Budget £m	2022/23 Budget £m	2023/24 Budget £m
Debt - Capital Programme	212.846	201.700	207.331	212.312	215.510
Debt - PFI's	55.112	52.977	50.329	47.397	44.339
Total	267.958	254.677	257.660	259.709	259.849
Capital Financing Requirement	262.463	265.397	269.596	273.075	274.699
Internal Borrowing	5.495	- 10.720	- 11.936	- 13.366	- 14.850
Gross Debt and the Capital Financing Requirement (as %)	102%	96%	96%	95%	95%

Based on the Council's Liability Benchmark which is produced for the Council's Annual Treasury Management Strategy. The Council has borrowed above benchmark in terms of the cost of carry of the additional c£5m borrowing. One of the short-term loans was for £5m from 23 March to 14 April, the interest cost for which was £2,315.

Table 5 – Borrowing and the Liability Benchmark in £ millions

	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Budget £m	2022/23 Budget £m	2023/24 Budget £m
Estimated Outstanding borrowing - Capital Programme	212.846	201.700	207.331	212.312	215.510
Liability benchmarking	197.253	212.480	216.895	220.446	222.160

Recommendations

This section will set out the key recommendations to improve the authority's financial arrangements:

Number	***Recommendation description***	***Proposed owner***	***Timescale (Immediate, within one month, within six months)***
6a	*Align Capital programme for at least as long as the new MTFS refresh for 5 years.*	*Director of Finance*	*Within six months*

7. Roadmap for improvement

Appendix 2 sets out a summary of our recommendations in the form of a high-level action plan for financial improvement, which the authority can incorporate into its existing medium term financial strategy.

8. Recommendations in relation to compliance with relevant Local Government accounting codes and practice

The Council's external auditors Mazars, in their Annual Audit Letter relating to the 2019/20, provide an unqualified audit on the financial statements, the most recently completed external audit. This unqualified opinion provides assurance that the Council is compliant with relevant local government accounting codes and practice. Discussion with the auditor in regard to the 2020/21 audit did not identify any further concerns. The draft 2020/21 financial statements were reviewed by the Council's Governance Committee in July 2021.

Compliance with CIPFA's codes of practice is a specific requirement of the Council's constitution. This is reflected in the fact that:

- The refreshed Capital Strategy for 2021/22 was approved by the Council before the start of the financial year in accordance with the CIPFA Code of Practice for Treasury Management and set a number of Prudential and Treasury Management Indicators.

- In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year.

We also note that the Council has implemented a Code of Governance 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).

Recommendation - Review compliance with the CIPFA Financial Management Code.

The Council should proceed with the planned review of its compliance with the CIPFA Financial Management Code, consider the extent to which this is reflected in financial regulations and use this look for further opportunities to develop good practice.

Number	***Recommendation description***	***Proposed owner***	***Timescale (Immediate, within one month, within six months)***
8a	Review compliance with the CIPFA Financial Management Code.	*Director of Finance*	*Within 6 months*

Appendix 1 – Summary of recommendations (including thematic analysis)

Number	Recommendation description	Proposed owner	Timescale (Immediate, within one month, within six months)
4a	Maintain at least a 5-year MTFS financial planning horizon at all times.	*Director of Finance*	*Within six months*
4b	Use of scenario planning in the MTFS to help overcome uncertainties over future funding arrangements.	*Director of Finance*	*Within 6 months*
4c	Ensure continued focus on preserving adequate reserve levels.	*Director of Finance*	*Immediate*
4d	Review progress on DSG deficit reduction.	*Director of Finance*	*Within six months*
4e	Look for opportunities to make more use of detailed benchmarking information to challenge services.	*Director of Finance*	*Within six months*
5a	Bring forward quarterly reporting of the financial position to members	*Director of Finance*	*Within six months*
5b	Use integrated reporting that considers financial performance alongside service performance	*Director of Finance*	*Within six months*
5c	Develop and adopt a financial performance dashboard	*Director of Finance*	*Within six months*
5d	Improve the link between the savings programme and scenario planning outcomes.	*Director of Finance*	*Within six months*
5e	Develop savings in advance of what is required for the central MTFS scenario, in order to increase financial flexibility.	*Director of Finance*	*Within six months*
6a	*Align Capital programme for at least as long as the new MTFS refresh for 5 years.*	*Director of Finance*	*Within six months*
8a	Review compliance with the CIPFA Financial Management Code.	*Director of Finance*	*Within six months*

CIPFA Capitalisation reviews – recommendation thematic analysis

Assets	Capitalisation	Commercial & borrowing	Governance & oversight	Future sustainability	Reserves	Savings & efficiencies	Capacity & capability
Redcar & Cleveland Borough Council							
6c Align Capital programme for at least as long as the new MTFS refresh for 5 years.		6a Implement Interest rate scenario planning to forecast interest rate costs in relation to forecast capital programme and monitor on on-going basis	5a Bring forward quarterly reporting of the financial position to members	4a Maintain at least a 5-year MTFS financial planning horizon at all times.	4c Ensure continued focus on preserving adequate reserve levels.	5d Improve the link between the savings programme and scenario planning outcomes.	
		6b Produce Liability benchmark and monitor on an on-going basis to aid planning of borrowing decisions	5b Use integrated reporting that considers financial performance alongside service performance	4b Use of scenario planning in the MTFS to help overcome uncertainties over future funding arrangements.		5e Develop savings in advance of what is required for the central MTFS scenario, in-order-to increase financial flexibility.	
			5c Develop and adopt a financial performance dashboard	4d Review progress on DSG deficit reduction.		4e Look for opportunities to make more use of detailed benchmarking information to challenge services.	
			8a Review compliance with the CIPFA Financial Management Code.				

Appendix 2- Detailed improvement roadmap (from Section 6)

	REDCAR AND CLEVELAND BOROUGH COUNCIL	Imme-diately	Dec 2021	Jan 2022	Feb 2022
Leadership & Governance					
5a	Bring forward quarterly reporting of the financial position to members				
5b	Use integrated reporting that considers financial performance alongside service performance				
5c	Develop and adopt a financial performance dashboard.				
4c	Ensure continued focus on preserving current reserve levels.				
4d	Review progress on DSG deficit reduction.				
Corporate Improvement					
8a	Review compliance with the CIPFA Financial Management Code.				
Financial Management & Savings					
4a	Maintain at least a 5-year MTFS financial planning horizon at all times.				
4b	Use of scenario planning in the MTFS to help overcome uncertainties over future funding arrangements.				
4e	Look for opportunities to make more use of detailed benchmarking information to challenge services.				
5d	Improve the link between the savings programme and scenario planning outcomes.				
5e	Develop savings in advance of what is required for the central MTFS scenario, in order to increase financial flexibility				
Asset Management & Capital Programme					
6c	6c Align Capital programme for at least as long as the new MTFS refresh for 5 years.				

Appendix 3 – List of those interviewed

John Sampson, Managing Director
Phil Winstanley, Assistant Director for Finance (S151 Officer)
Mary Lanigan, Leader of the Council
Glyn Nightingale, Cabinet Member for Resources - Lead Member for Finance and Property Management
Carl Quartermain, Leader of the Labour Group – Leader of the Opposition
Steve Newton, Director of Governance and Monitoring Officer
Andrew Carter, Assistant Director for Growth
Robert Hoof, Assistant Director Environment – A/Director for Neighbourhoods Patrick Rice, Director for Adults and Communities
Mike Oyston, Strategic Service Lead – Local Taxation & Support - Head of Council Tax and Business Rate Collection
Vikki Smith, Business Manager - Head of Risk Management
Max Thomas – Veritau Rob Davisworth, Chief Finance Accountant - Head of Internal Audit
Lead responsible for the MTFS – Phil Winstanley / Rob Davisworth
Lead responsible for Treasury Management – Allison Phillips, Corporate Accountant
Lead responsible for any commercial interests – N/A
External Audit – Gavin Barker, Mazars

Valuers used for assets owned by the Council – Guy Allen, Strategic Asset Manager

Appendix 4 – List of documents (and other artefacts reviewed)

0.CIPFA Assurance Review - document list 13.07.2021.xlsx
01. 2021.01.15 - RE_ RCBC Assessment of Costs and Exceptional Financial Support Evidence.msg
01. 2021.01.19 - Letter to Luke Hall - 19.01.21.pdf
01. 2021.01.26 - RE_ RCBC Assessment of Costs and Exceptional Financial Support Evidence.msg
02. Medium Term Financial Strategy 21-22 25.02.2021.pdf
10. Financial Position Outturn - 2018-19.pdf
10. Financial Position Outturn - 2019-20.pdf
10. Financial Position Outturn - 2020-21.pdf
13. Draft Statement of Financial Accounts - 20-21 (Draft at 12.07.2021).pdf
13. Statement of Financial Accounts - 18-19.pdf
13. Statement of Financial Accounts - 19-20.pdf
16. Governance Committee - 22.06.21.pdf
16. Governance Committee - 26.04.21.pdf
16. Governance Committee - 26.11.19.pdf
16. Governance Committee - 27.07.20.pdf
16. Governance Committee - 27.11.18.pdf
16. Governance Committee - 29.09.20.pdf
16. Governance Committee - 30.07.19.pdf
16.Governance Committee - 09.02.21.pdf
16.Governance Committee - 11.02.20.pdf
16.Governance Committee - 23.04.19.pdf
16.Governance Committee - 24.11.20.pdf
16.Governance Committee - 28.05.19.pdf
17. Pension Fund Statement - Redcar and Cleveland Borough Council - IAS 19 - 31 March 2019.pdf
17. Pension Fund Statement - Redcar and Cleveland Borough Council - IAS 19 - 31 March 2021.pdf
17.Pension Fund Statement - Redcar and Cleveland Borough Council - IAS 19 - 31 March 2020.pdf
18. Financial Procedure Rules extract from constitution.pdf
19. Finance and Transactions Structure Chart.pdf
21. Adult and Community Services Senior Structure Chart.pdf
21. Children and Families Senior Structure Chart.pdf
21. Executive Management Team Structure.pdf
21. Resources Senior Structure Chart.pdf
22. Corporate Implementation Plan - Dec 2020 reported to Cabinet.pdf
22. Corporate Implementation Plan - to 2020 .pdf
22. Delivery Plan of Corporate Objectives 2018.pdf
22. New Administration Priorities - report to Cabinet December 2019.pdf
22. RCBC Corporate Plan 2021-2024.pdf
23. Corporate Risk Register May 2021.xls
24. Annual Governance Statement 2018-19.pdf
24. Annual Governance Statement 2019-20.pdf
26. Annual Report of Chief Internal Auditor - 2020-21 - 27.07.21.pdf
27. Redcar Galileo actions 13-07-2021.xlsx
28. WP 2020-21 - Assets held for sale.xls
29. Asset Register PPE Note 19 WP 2020-21 v2.xls
30. MRP Calculation 2020-21.xlsx
31.WP 2020-21- Investment Properties breakdown.xls

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