HUMBERSIDE FIRE AUTHORITY

Fire & Rescue Service Headquarters Summergroves Way Kingston upon Hull HU4 7BB

Telephone 01482 565333

To: Members of the Governance, Audit and Scrutiny Committee	**Enquiries to:** Rob Close **Email:** committeemanager@humbersidefire.go.uk **Tel. Direct:** (01482) 393899 **Date:** 10 February 2023

Dear Member

I hereby give notice that a meeting of the **GOVERNANCE, AUDIT AND SCRUTINY COMMITTEE** of Humberside Fire Authority will be held on **MONDAY 20 FEBRUARY 2023 at 10.00AM** at HUMBERSIDE FIRE & RESCUE SERVICE HEADQUARTERS, SUMMERGROVES WAY, KINGSTON UPON HULL, HU4 7BB.

The business to be transacted is set out below.

Yours sincerely

R Close

for Lisa Nicholson
Monitoring Officer & Secretary to Fire Authority

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A G E N D A

Business	Page Number	Lead	Primary Action Requested
Procedural 1. Apologies for absence	-	Monitoring Officer/ Secretary	To record
2. Declarations of Interest (Members and Officers)	-	Monitoring Officer/ Secretary	To declare and withdraw if pecuniary
3. Minutes of the meeting of 23 January 2023	(pages 3 - 6)	Chairperson	To approve
4. Matters arising from the Minutes, other than on the Agenda	-	Chairperson	To raise
Governance 5. Update: Matters Arising/ Feedback from Fire Authority	Verbal	Chairperson and Monitoring Officer/ Secretary	To consider and make any recommendations to the HFA

Business	Page Number	Lead	Primary Action Requested
<u>Audit</u> 6. Draft Internal Audit Plan 2023/24	(pages 7 - 14)	Internal Audit (TIAA)	To consider and make any recommendations to the HFA
<u>Finance and Performance</u> 7. Treasury Management and Capital Expenditure Strategy 2023/24	(pages 15 – 52)	Deputy Joint Chief Finance Officer/Deputy S.151 Office	To consider and make any recommendations to the HFA
<u>Scrutiny Programme</u> 8. Scrutiny Item - General Data Protection Regulation	(pages 53 - 72)	Area Manager of Service Improvement	To consider and make any recommendations to the HFA
9. GAS Committee Scrutiny Programme 2022/23	(pages 73 - 75)	Monitoring Officer/Secretary	To approve

HUMBERSIDE FIRE AUTHORITY

GOVERNANCE, AUDIT AND SCRUTINY COMMITTEE

23 JANUARY 2023

PRESENT: Independent Co-opted Members James Doyle (Chair) Chris Brown, Pam Jackson, and Gerry Wareham.

Officers Present: Matthew Sutcliffe – Assistance Chief Fire Officer & Executive Director of Corporate Services, Christine Cooper – Executive Director of People and Development, Steve Duffield – Area Manager Service Improvement, Jason Kirby – Area Manager of Emergency Response, Martyn Ransom – Joint Deputy Chief Finance Officer & Deputy S.151 Officer (in remote attendance), Sam O'Connor – Head of Organisational Development, Simon Rhodes - Head of Corporate Assurance, Lisa Nicholson – Monitoring Officer/Secretary, and Rob Close – Committee Manager.

Internal Audit (TiAA)

Andrew McCulloch – Director of Internal Audit and David Robinson – Audit Manager (TiAA)

External Audit (Mazars)

Ross Woodley – Audit Manager

Councillor Green was also in attendance.

The meeting was held at the Humberside Fire and Rescue Service Headquarters, Kingston upon Hull.

PROCEDURAL

01/23 APOLOGIES FOR ABSENCE – Apologies for absence were received from Kathryn Lavery.

02/23 DECLARATIONS OF INTEREST – No declarations of interest were made with respect to any items on the agenda.

03/23 MINUTES – ***Resolved*** – That the minutes of the meeting held on 1 December 2022 be confirmed as a correct record.

04/23 MATTERS ARISING FROM THE MINUTES, OTHER THAN ON THE AGENDA – There were no matters arising.

GOVERNANCE

05/23 UPDATE: MATTERS ARISING/FEEDBACK FROM FIRE AUTHORITY – The Monitoring Officer/Secretary provided feedback on items considered by the Fire Authority at its meetings on 2 December 2022.

Resolved - That the update be received.

AUDIT

06/23 INTERNAL AUDIT REPORTS – The Committee received a report of the internal auditors, TIAA. The Committee was given an overview of the key findings from the audit reviews into collaboration activity, ICT GDPR, and secondary contracts. While both ICT GDPR and secondary contracts received reasonable assurance, collaboration activity was assessed at limited assurance with eight important action points identified.

It was clarified that the majority of the recommendations' deadlines for the ICT GDPR audit concluded in June 2023 therefore allowing time for the development of a new assurance framework to integrate effective evaluation.

Since the end of 2022 deadline for GDPR e-learning, the completion sat at 85 per cent of current staff. The outstanding e learning courses were constantly monitored and those who had not completed training, were implored to as soon as reasonably practicable.

In relation to recommendation two of the secondary contracts audit, the letter to be drafted to HFR Solutions was dependant on the completion of policy framework revision. It was further clarified that the conditions limiting secondary employment sought only to mitigate conflicts of interest or manage total hours. There were not many factors that would ultimately preclude secondary contracts. Additionally, there was a minimum service obligation within the contracts of operational fire fighters expecting them to be available for their primary roles as a priority.

Resolved – That the Internal Audit Report be received.

07/23 EXTERNAL AUDIT ANNUAL REPORT AND FOLLOW UP LETTER TO AUDIT COMPLETION REPORT FROM 2021/22 AUDIT – The Committee received a report of the external auditors, Mazars. The Committee was advised that the follow up letter to the audit completion report was issued in November 2022. The delay in assurance resulted from asset valuations from the pension fund auditors producing a sample valuation error. That error, however, was immaterial.

Resolved – That the External Audit Annual Report and Follow Up Letter to Audit Completion Report From 2021/22 Audit be received.

08/23 EXTERNAL AUDIT PROGRESS REPORT– The Committee received a report of the external auditors, Mazars. The Committee was advised that the audit opinion for the 2020/21 Whole of Government Accounts was issued but could not be certificated as there was still outstanding sample work. The assurance statement had however been issued to the National Audit Office on 19 December 2022. An unqualified opinion was issued on the 2021/22 accounts, including Humber Fire and Rescue Service within just 11 per cent of local authorities to receive their opinion within the deadline. The Value For Money review, conducted in December 2022, identified no weaknesses relevant to report. The only outstanding work for the 2021/22 Audit was the Whole of Government Accounts which were expected to be significantly delayed due to outstanding instruction from the National Audit Office.

It was acknowledged that the use of earmarked reserves to mitigate against inflationary pressures proved prudent over the 2022/23 financial year.

Resolved - That the Internal Audit Report be received.

<u>**FINANCE AND PERFORMANCE**</u>

09/23 REVIEW OF ANTI-FRAUD RELATED POLICIES – The Committee received a verbal report of the Head of Corporate Assurance. The Committee received an overview of the anti-bribery policy, anti-fraud and corruption policy, anti-money laundering policy and the whistleblowing policy.

It was clarified that standard induction process for new employees was to progress through e-learning packages which provided an overview of key policies relating to their roles.

Resolved – That the Review of Anti-Fraud related policies report be received;

SCRUTINY PROGRAMME

10/23 SCRUTINY ITEM – EQUALITY, DIVERSITY, AND INCLUSION – EQUALITY IMPACT ANALYSIS – The Committee received a report of the Executive Director of People & Development.

The Committee was advised that, in 2020, the National Fire Chiefs Council (NFCC) commissioned McKenzie's LLP to deliver Equality Impact Analysis (EIA) awareness training to services throughout the country. The NFCC subsequently launched a template, process and supporting toolkit to embed standardised EIA across the sector. The Service also adopted an EIA Policy in July 2021 following consultation with staff.

An internal audit was conducted in August 2022 – an assurance review of EIAs, and it was a key line of enquiry on the recent HMICFRS inspection. The learning and recommendations from both these inspections were included in the current Service Improvement Plan (SIP) and were being actioned and monitored accordingly.

The number of completed and published EIAs for 2021/22 now totalled 108 as at 31/12/2022. This was a substantial increase from previous years, although the Service acknowledged further improvements were required for consistency and deficits such as major projects and activities.

A Service wide EIA that was planned that would cover an analyses of the Service's four key responsibilities of Fire and Rescue Services Act 2004. This would then help to identify activities/areas of work that required further EIAs to be produced

Members raised the following points:

- **Consultation** – Both staff and community groups were consulted to develop the EIA Policy and any EIAs used in respect of other polices and decisions. While direct networking was often preferred, on occasion, published data and reports from community groups were also used to inform EIAs. That regular use of EIAs created a continuously updating system that responded to changes in equality and diversity landscape.

- **Impact on Challenge** – The inclusion of EIAs within the Service created an additional level of assurance which could be relied upon if challenges to decisions were made. Often, the health and safety arising from policies and decisions was the ultimate factor.

Resolved - That the Committee endorses the Service's commitment to and continuing journey of improvement of Equality Impact Analyses under the Public Sector Equality Duty..

11/23 GAS COMMITTEE SCRUTINY PROGRAMME 2022/23 – The Committee Manager submitted a report summarising the Committee's Scrutiny Programme 2022/23.

Resolved - *That the Programme be received.*

INTERNAL AUDIT

Agenda Item No. 6

tiaa

Humberside Fire and Rescue Service

Internal Audit Annual Plan 2023/24

2023/24

February 2023

DRAFT

OVERVIEW

Introduction

The Audit Plan for 2023/24 has been informed by a risk assessment carried out across our fire service clients and by an updated audit risk assessment to ensure that planned coverage for the year is focussed on the key audit risks, and that the coverage will enable a robust annual Head of Internal Audit Opinion to be provided.

Key Emerging Themes

This year will continue to be another challenging year for the fire service in terms of the macroeconomic and financial environment, spiralling costs and the labour market. We have identified a number of key areas which will individually and collectively affect the sector in various ways; these require consideration when planning internal audit coverage.

Macroeconomic and financial environment: The UK economy has experienced a sequence of significant events including Brexit, the pandemic and the conflict in Ukraine. Further challenges lie ahead as the government seeks to cut spending and raises taxes to plug the gap in the UK's finances. Rapid and increasingly prolonged inflation, rising interest rates, shortages in the labour market and continuing supply chain disruption are leading to increased costs and a challenging financial situation for many.

Increasing wage demands: One of the consequences of the economic situation is demands for significant pay increases to help combat the effect of inflation and a perceived lack of pay progression for over a decade. This has seen strike action taking place or planned by rail workers, postal workers, lecturers, bus drivers and nurses. This will put pressure on organisational budgets and present challenges in recruitment.

Cyber security: This continues to be one of the highest ranked risks for organisations and shows no sign of going away. The widespread move to remote working and increased online service delivery has made organisations more vulnerable to phishing, malware, and ransomware attacks, particularly where there has been a lack of investment in infrastructure.

Climate change: Global warming can lead to physical, operational, financial and reputational risks arising. 'Loss and damage' - the phrase used to describe the destruction being wrought by the climate crisis - will remain high on the agenda. Aside from the obvious environmental impact, climate change can stress local economies, threaten business models and pose widespread disruption to organisations.

Adequacy of the planned audit coverage

The reviews identified in the audit plan for 2023/24 support the Head of Internal Audit's annual opinion on the overall adequacy and effectiveness of the Fire Service's framework of governance, risk management and control as required by TIAA's charter. The reviews have been identified from your assurance framework, risk registers and key emerging themes.

INTERNAL AUDIT PLAN

Audit Strategy Methodology

We adopt a proprietary risk-based approach to determining your audit needs each year which includes reviewing your risk register and risk management framework, the regulatory framework, external audit recommendations and previous internal audit work for the organisation, together with key corporate documentation such as your business and corporate plan, standing orders, and financial regulations. For 2023/24, we have conducted an analysis of the key risks facing the sector and client base more broadly to inform our annual planning. The Audit Strategy is based predominantly on our understanding of the inherent risks facing the Fire Service and those within the sector and has been developed with senior management.

Our approach is based on the International Standards for the Professional Practice of Internal Auditing which have been developed by the Institute of Internal Auditors (IIA) and incorporate the Public Sector Internal Audit Standards (PSIAS). In 2022, TIAA commissioned an External Quality Assessment (EQA) of its internal audit service. The independent EQA assessor was able to conclude that TIAA 'generally conforms to the requirements of the Public Sector Internal Audit Standards and the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF)'. 'Generally conforms' is the highest rating that can be achieved using the IIA's EQA assessment model.

Risk Prioritisation

Each year an updated risk assessment is carried out to ensure the Audit Plan remains fully aligned with the key risks facing the Fire Service. We take in to account any emerging or heightened risks that are facing the sector, to ensure that the work of internal audit remains appropriately focused.

Internal Audit Plan

Following the risk prioritisation review, the Annual Plan (Appendix A) sets out the reviews that will be carried out, the planned times and the high-level scopes for each of these reviews.

The Annual Plan will be subject to ongoing review and could change as the risks change for the organisation and will be formally reviewed with senior management and the Governance, Audit and Scrutiny (GAS) Committee mid-way through the financial year or should a significant issue arise.

The overall agreed time for the delivery of each assignment within the Annual Plan includes: research; preparation and issue of terms of reference; site work; production and review of working papers; and reporting.

The Annual Plan has been prepared on the assumption that the expected controls will be in place.

The total number of days required to deliver the Audit Plan is as agreed in the contract between TIAA and the Humberside Fire and Rescue Service. This number of days is fixed and it is TIAA's responsibility to deliver the Audit Plan for this number of days. Where the Fire Service agrees additional work the required number of days and the aggregate day rate will be agreed in advance with the Executive Director of Service Support and S151 Officer and will be clearly set out in the terms of reference for the additional review(s).

Release of Report

The table below sets out the history of this plan.

Date plan issued:	9th February 2023

APPENDIX A: ANNUAL PLAN – 2023/24

Quarter	Review	Type	Days	High-level Scope
TBC	Bullying, Harassment and Discrimination	Assurance	6	The review will consider the action taken to minimise instances of bullying, harassment and discrimination, the reporting and investigation processes. The review will also consider promotion of the No Tolerance campaign.
TBC	Enforcement Powers and Priorities	Assurance	6	The review will consider the actions taken by the Fire Service in ensuring that enforcement powers prioritise the highest risks and high-risk premises are visited in line with policy.
TBC	Effectiveness of Systems (used to learn from operational Incidents)	Assurance	6	The review considers the arrangements in place to ensure that debriefs are undertaken in relation to a broad range of operational incidents and that appropriate lessons learned exercises are undertaken and communicated through appropriate channels.
TBC	National Operational Guidance	Assurance	5	The audit will review the effectiveness of NOG implementation against the plan, including staff training and guidance, communication of plans and understanding among staff.
TBC	Service Absolutes Process	Assurance	6	The review will evaluate the consistency in application, value, accuracy, recording and alignment to related performance management measures for the absolutes process. The review will also include the understanding of absolutes among staff.
2	Follow-up (Mid-year)	Follow Up	2	Follow-up of implementation of agreed priorities one and two actions from audit reports, ensuring the Fire Service are implementing recommendations, and providing reports to GAS Committee.
TBC	Staff Development	Assurance	6	The review will consider whether the Fire Service is applying appropriate practices related to staff development and talent management including workforce planning, recruitment and staffing strategies, succession management, learning and development and performance development reviews. The review will also assess the effectiveness and communication of the “Pipeline” process.
TBC	Mobile Data Terminal’s (MDT) performance	Assurance	6	The review will consider the effectiveness of the Mobile Data Terminals in use on fire engines including the accuracy, and accessibility of information provided through MDT’s, training provided to staff and the utilisation of the reporting processes for defects.
4	ICT Management Controls	Assurance	4	The review considers the arrangements for: access security; back up retention periods; email/ internet policy and enforcement; licence monitoring, upgrade controls and protocols for communicating with third parties. The scope of the review does not include consideration of the training needs; or the appropriateness of file sharing.

Quarter	Review	Type	Days	High-level Scope
4	Key Financial Controls	Assurance	7	The review will assess the adequacy and effectiveness of the internal controls in place for managing the following key financial systems. • Creditor Payments; • Payroll; • Treasury Management; • Debtors; • General Ledger; and • Pensions
4	Follow-up	Follow up	2	Follow-up of implementation of agreed priorities one and two actions from audit reports, ensuring the Fire Service are implementing recommendations, and providing reports to GAS Committee.
1	Annual Planning	Management	2	Assessing the Fire Service's annual audit needs.
4	Annual Report	Management	1	Reporting on the overall conclusions and opinion based on the year's audits and other information and providing input to the Annual Governance Statement.
1 – 4	Audit Management	Management	6	This time includes: meeting client management, overseeing the audit plan, reporting and supporting GAS Committee, liaising with External Audit and Client briefings (including fraud alerts, fraud digests and committee briefings).
		Total days	**65**	

APPENDIX C: INTERNAL AUDIT CHARTER

The Need for a Charter

The Audit Charter formally defines internal audit's purpose, authority and responsibility. It establishes internal audit's position within the Fire Service and defines the scope of internal audit activities. The establishment of the Audit Charter is a requirement of the Public Sector Internal Audit Standards (PSIAS) and approval of the charter is the responsibility of the GAS Committee.

Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The Role of Internal Audit

The main objective of the internal audit activity carried out by TIAA is to provide, in an economical, efficient and timely manner, an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the framework of governance, risk management and control. TIAA is responsible for providing assurance to the Fire Service's senior management and governing body (being the body with overall responsibility for the organisation) on the adequacy and effectiveness of the risk management, control and governance processes.

Standards and Approach

TIAA's work will be performed with due professional care, in accordance with the requirements of the PSIAS and the IIA standards which are articulated in the International Professional Practices Framework (IPPF).

Scope

All the Fire Service's activities fall within the remit of TIAA. TIAA may consider the adequacy of controls necessary to secure propriety, economy, efficiency and effectiveness in all areas. It will seek to confirm that the Fire Service's management has taken the necessary steps to achieve these objectives and manage the associated risks. It is not within the remit of TIAA to question the appropriateness of policy decisions; however, TIAA is required to examine the arrangements by which such decisions are made, monitored and reviewed.

As well as providing the required level of assurance, TIAA's may engage in consultancy activity that contributes to the overall assurance that can be delivered to the GAS Committee.

TIAA may also conduct any special reviews requested by the Board, GAS Committee or the nominated officer (being the post responsible for the day-to-day liaison with TIAA), provided such reviews do not compromise the audit service's objectivity or independence, or the achievement of the approved audit plan.

Access

TIAA has unrestricted access to all documents, records, assets, personnel and premises of the Fire Service and is authorised to obtain such information and explanations as they consider necessary to form their opinion. The collection of data for this purpose will be carried out in a manner prescribed by TIAA's professional standards, Information Security and Information Governance policies.

Independence

TIAA has no executive role, nor does it have any responsibility for the development, implementation or operation of systems; however, it may provide independent and objective advice on risk management, control, governance processes and related matters, subject to resource constraints. For day-to-day administrative purposes only, TIAA reports to a nominated officer within the Fire Service and the reporting arrangements must take account of the nature of audit work undertaken. TIAA has a right of direct access to the chair of the board, the chair of the GAS Committee and the responsible accounting officer (being the post charged with financial responsibility).

To preserve the objectivity and impartiality of TIAA's professional judgement, responsibility for implementing audit recommendations rests with the Fire Service's management.

Conflict of Interest

Consultancy activities are only undertaken with distinct regard for potential conflict of interest. In this role we will act in an advisory capacity and the nature and scope of the work will be agreed in advance and strictly adhered to.

We are not aware of any conflicts of interest and should any arise we will manage them in line with TIAA's audit charter and internal policies, the PSIAS/IIA standards and the Fire Service's requirements.

Irregularities, Including Fraud and Corruption

TIAA will without delay report to the appropriate regulator, serious weaknesses, significant fraud, major accounting and other breakdowns subject to the requirements of the Proceeds of Crime Act 2002.

TIAA will be informed when evidence of potential irregularity, including fraud, corruption or any impropriety, is discovered so that TIAA can consider the adequacy of the relevant controls, evaluate the implication of the fraud on the risk management, control and governance processes and consider making recommendations as appropriate. The role of TIAA is not to investigate the irregularity unless commissioned to do so.

Limitations and Responsibility

Substantive testing will only be carried out where a review assesses the internal controls to be providing 'limited' or 'no' assurance with the prior approval of the Fire Service and additional time will be required to carry out such testing. The Fire Service is responsible for taking appropriate action to establish whether any loss or impropriety has arisen as a result of the control weaknesses.

Internal controls can only provide reasonable and not absolute assurance against misstatement or loss. The limitations on assurance include the possibility of one or more of the following situations, control activities being circumvented by the collusion of two or more persons, human error, or the overriding of controls by management. Additionally, no assurance can be provided that the internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks that may arise in future.

The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.

Reliance will be placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.

The matters raised in the audit reports will be only those that come to the attention of the auditor during the course of the internal audit reviews and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. The audit reports are prepared solely for management's use and are not prepared for any other purpose.

Liaison with the External Auditor

We will liaise with the Fire Service's External Auditor. Any matters in the areas included in the Annual Plan that are identified by the external auditor in their audit management letters will be included in the scope of the appropriate review.

Quality Assurance

TIAA recognises the importance of Internal Audit being controlled at each stage to ensure that we deliver a consistent and efficient Internal Audit service that is fully compliant with professional standards and also the conditions of contract. We operate a comprehensive internal operational quality review process to ensure that all Internal Audit work is carried out in accordance with these standards. These quarterly reviews are part of our quality management system which has IS0 9001:2015 accreditation.

Governance, Audit and Scrutiny Committee Responsibility

It is the responsibility of the Fire Service to determine that the number of audit days to be provided and the planned audit coverage are sufficient to meet the Committee's requirements and the areas selected for review are appropriate to provide assurance against the key risks within the organisation.

By approving this document, the GAS Committee is also approving the Internal Audit Charter.

Reporting

Assignment Reports: A separate report will be prepared for each review carried out. Each report will be prepared in accordance with the arrangements contained in the Terms of Reference agreed with TIAA and which accord with the requirements of TIAA's audit charter and PSIAS/IIA standards.

Progress Reports: Progress reports will be prepared for each GAS Committee meeting. Each report will detail progress achieved to date against the agreed annual plan.

Follow-Up Reports: We will provide an independent assessment as to the extent that priority 1 and 2 recommendations have been implemented. Priority 3 recommendations are low-level/housekeeping in nature and it is expected that management will monitor and report on implementation as considered appropriate.

Annual Report: An Annual Report will be prepared for each year in accordance with the requirements set out in TIAA's audit charter and PSIAS/IIA standards. The Annual Report will include a summary opinion of the effectiveness of the Fire Service's governance, risk management and operational control processes based on the work completed during the year.

Other Briefings: During the year Client Briefing Notes, Benchmarking and lessons learned digests will be provided. These are designed to keep the organisation abreast of in-year developments which may impact on the governance, risk and control assurance framework.

Assurance Assessment Gradings

We use four levels of assurance assessments as set out below.

Substantial Assurance	There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.
Reasonable Assurance	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved.
Limited Assurance	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved.
No Assurance	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

Data Protection

TIAA has policies, procedures and processes in place to comply with all associated regulation and legislation on information security, which is underpinned by mandatory annual awareness training for all staff. To carry out our role effectively, we need to obtain information that is reliable, relevant and sufficient to support our findings and recommendations. The collection of data, particularly sensitive personal data, is minimised and is not shared with unauthorised persons unless there is a valid and legal requirement to do so. We have clear policies on the retention of data and its appropriate, controlled disposal. TIAA has a fully robust Information Security Management System that meets all the requirements of ISO27001:2013.

Disclaimer

The matters raised in this planning report, along with those raised in our audit and annual reports, are only those that came to the attention of the auditor during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Performance Standards

The following Performance Targets will be used to measure the performance of internal audit in delivering the Annual Plan:

Performance Measure	Target
Completion of planned audits.	100%
Audits completed in time allocation.	100%
Draft report issued within 10 working days of exit meeting.	100%
Final report issued within 10 working days of receipt of responses.	100%
Compliance with TIAA's audit charter and PSIAS/IIA Standards.	100%

Governance, Audit and Scrutiny Committee
20 February 2023

Agenda Item No. 7
Report by Joint Deputy S.151 Officer/Joint Deputy Chief Finance Officer

TREASURY MANAGEMENT AND CAPITAL EXPENDITURE PRUDENTIAL INDICATORS, TREASURY MANAGEMENT POLICY STATEMENT 2023/24 AND MINIMUM REVENUE PROVISION (MRP) FOR 2023/24

1. SUMMARY

1.1 This report sets out the Prudential Indicators for Treasury Management and Capital and the Treasury Management Policy Statement proposed for adoption for the financial year 2023/24. The Authority's Constitution requires that the Policy Statement is approved by the full Fire Authority and this responsibility cannot be delegated.

1.2 This report also outlines the recommended policy to be adopted in respect of creating the Minimum Revenue Provision (MRP) for 2023/24, in line with the statutory requirements set out in The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 and 2017.

2. RECOMMENDATIONS

2.1 That Members note and make any recommendations to the Fire Authority as required on the attached the Treasury Management Strategy Statement for 2023/24 onwards.

3. BACKGROUND

3.1 Treasury Management, as defined by the Chartered Institute of Public Finance and Accountancy (CIFPA) Code of Practice 2017 is:

''The management of the organisation's investments and cash-flows, its banking and money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of the optimum performance consistent with those risks.''

3.2 An updated version of the Code was published in December 2017; this strategy statement has been prepared in accordance with the requirements of the new Code.

4. TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS

4.1 The Local Government Act 2003 and supporting regulations require Authority to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set, on an annual basis, a range of Prudential and Treasury Indicators for the next three years to ensure that its capital investment plans are affordable, prudent and sustainable. This report details the proposed indicators relating to the Authority's Treasury Management activities, capital expenditure and external debt for 2023/24 for Members' consideration and approval.

4.2 The suggested strategy for 2023/24 in respect of the following aspects of the treasury management function is based upon the S.151 Officer's views on interest rates, supplemented with leading mark forecasts provided by the Authority's treasury management advisors and support from the treasury management team within Hull City Council. The strategy covers:

- limits in force which will limit the treasury risk and activities of the Authority;
- the Treasury Management and Prudential Indicators;
- the current treasury position;
- prospects for interest rates;

- the borrowing requirement strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- the MRP strategy;
- policy on use of external service providers

4.3 The 2003 Act, revised Investment Guidance issued 2010 and the updated CIPFA Code also require that Members give consideration to the Authority's Annual Investment Strategy, setting out how investments will be managed and the priorities for security and liquidity of those investments as well as the Annual Borrowing Strategy; these have also been incorporated into this report.

4.4 In addition, it is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Authority to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital decisions. This therefore means, that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

a. increased interest charges from additional borrowing and;

b. increased running costs from new capital projects

are limited to a level that is affordable within the projected income of the Authority.

5. RESOURCING/FINANCIAL/VALUE FOR MONEY

5.1 The approach outlined within the report is aimed at achieving effective and efficient management of the Authority's financial resources and reflects a prudent approach to the management of financial risk for the Authority.

6. RISK/ HEALTH AND SAFETY/LEGAL IMPLICATIONS

6.1 The Authority must comply with the requirements of the CIPFA Code of Practice on Treasury Management 2017 and the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2017. This report ensures such compliance.

6.2 The formulation and application of a prudent Treasury Management Policy and MRP provision ensures that the Authority effectively manages financial risks such as exposure to interest rate changes and liquidity risk whilst minimising borrowing costs and maximising investment income. It further ensures that sufficient levels of resource are set aside for the repayment of debt. Effective treasury management is key to making the best use of the Authority's financial resources and thus the successful delivery of its Strategic Plan.

7. LINKAGES TO ANY STRATEGIC/CORPORATE PLANS/POLICIES

7.1 Treasury Management is an integral part of the financial management of the Authority with Prudential Indicators providing a framework for the Authority to monitor key elements of its financial position. Utilising approved Borrowing and Investment Strategies, the Executive Director of Finance/S.151 Officer will seek to minimise borrowing costs and maximise investment income whilst adopting a prudent approach to the Authority's exposure to market risks, especially given the current economic situation.

8. EQUALITY IMPLICATIONS

8.1 There is no requirement to carry out an equality impact analysis as this report does not relate to a policy or service delivery change.

9. CONCLUSION

9.1 That Members note and make any recommendations to the Fire Authority as required on the attached Treasury Management Strategy Statement for 2023/24 onwards.

Martyn Ransom
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Officer Contact

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Background Papers

Medium-Term Resource Strategy 2023/24 to 2026/27 – report to Fire Authority 10 February 2023
Treasury Management Mid-year Update Report 2022/23 – Report to Fire Authority December 2022
CIPFA Prudential Code (Revised 2011) and November 2012 and 2017 update
The local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 and 2017

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Humberside Fire Authority 2023/24

HUMBERSIDE
Fire & Rescue Service

Safer Communities Safer Firefighters

INTRODUCTION

Background

The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Authority's low-risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that the Authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet a risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

Reporting requirements

Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full Authority fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

Treasury Management Reporting

The Authority is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first and most important report is forward looking and covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid-year treasury management report based on period ending 30th September – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, the Authority will receive quarterly update of Prudential Indicators as part of the Management Accounts based on periods ending 30th June and 31st December.

An annual treasury report – This is a backward-looking document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Authority. This role is undertaken by the Governance, Audit and Scrutiny Committee.

Treasury Management Strategy for 2023/24
The strategy for 2023/24 covers two main areas:

Capital issues
- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Authority;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Training will be arranged as required.

Treasury management consultants

The Authority uses Link Group, Treasury solutions as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions always remains with the Authority and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

THE CAPITAL PRUDENTIAL INDICATORS 2023/24 – 2026/27

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital expenditure – Indicator 1

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Total	**3.348**	**7.327**	**2.847**	**3.707**	**3.565**

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements, which already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital receipts	-	-	-	-	-
Capital grants	-	-	-	-	-
Capital reserves	-	-	-	-	-
Revenue	1.157	2.000	1.500	1.500	1.500
Net financing need for the year	**2.191**	**5.327**	**1.347**	**2.207**	**2.065**

The Authority's borrowing need (the Capital Financing Requirement) – Indicator 2

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to separately borrow for these schemes. The Authority had £1.029m of such schemes within the CFR as at 31st March 2022.

The Authority is asked to approve the CFR projections below:

£m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital Financing Requirement					
Underlying CFR	19.080	23.469	23.320	23.908	24.141
Other LT Liabilities*	1.013	0.996	0.977	0.956	0.933
Total CFR	**20.093**	**24.465**	**24.297**	**24.864**	**25.074**
CFR as a % of BR	**42.20%**	**46.93%**	**45.19%**	**44.84%**	**43.61%**
Movement in CFR	**1.373**	**4.372**	**(0.168)**	**0.567**	**0.210**

Movement in CFR represented by					
Net financing need for the year (above)	2.191	5.327	1.347	2.207	2.065
Less MRP/VRP and other financing movements	(0.818)	(0.955)	(1.515)	(1.640)	(1.855)
Movement in CFR	**1.373**	**4.372**	**(0.168)**	**0.567**	**0.210**

This table shows CFR increasing to circa 45% of our Budget Requirement (BR).

*IFRS16 Leases comes into effect from 2024/25. The impact of this is yet to be established and will be reviewed throughout the year.

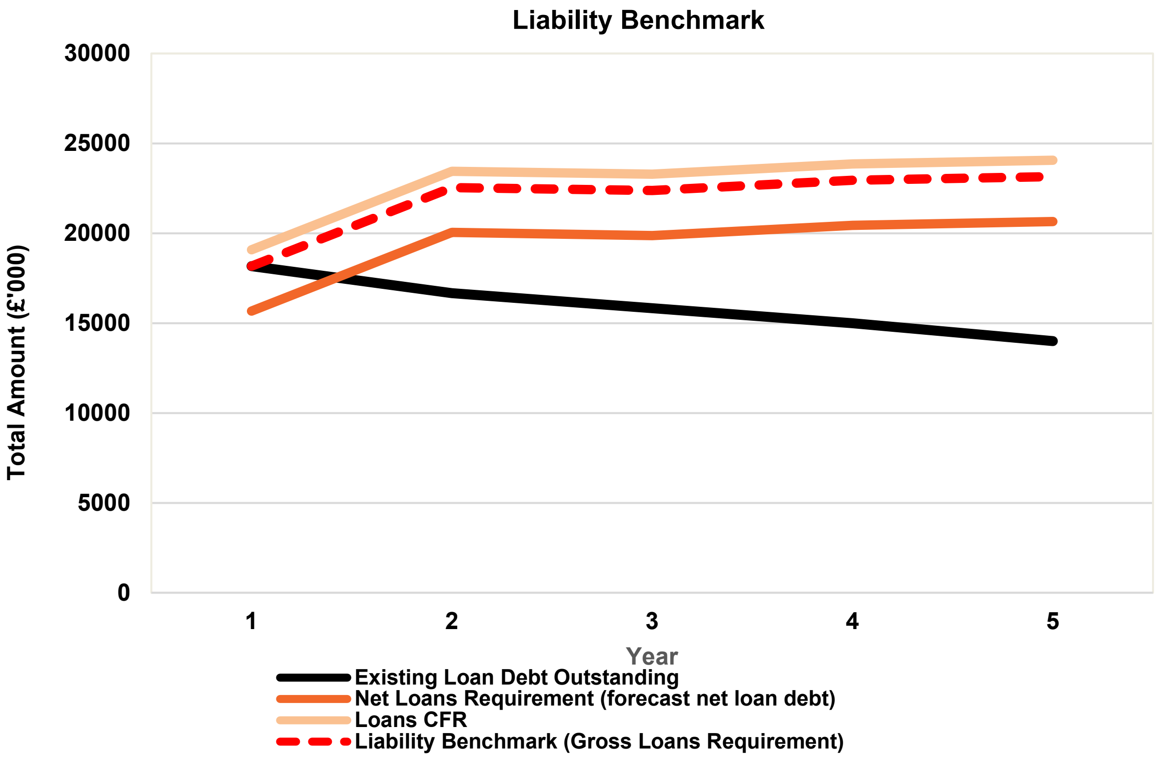
The Authority's Liability Benchmark – Indicator 3

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

- **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
- **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

The graph below shows that the Authority is currently slightly internally borrowed and this will increase over the next few years. The Authority will actively monitor interest rates and determine the most advantageous time to take actual long-term borrowing. Short-term borrowing may be used until borrowing rates become more attractive.



Core funds and expected investment balances – Indicator 4

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Fund balances / reserves	14.517	13.300	11.001	10.821	11.699
Capital receipts	0.030	0.030	0.030	0.030	0.030
Total core funds	**14.547**	**13.330**	**11.031**	**10.851**	**11.729**
Working capital*	(2.500)	(2.500)	(2.500)	(2.500)	(2.500)
(Under)/over borrowing	(0.911)	(5.800)	(5.492)	(5.908)	(6.141)
Expected investments	**11.136**	**5.030**	**3.039**	**2.443**	**3.089**

*Working capital balances shown are estimated year-end; these may be higher mid-year

TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2023/24 – 2026/27

The capital expenditure plans set out in this section provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the annual investment strategy.

Current portfolio position

The Authority's estimated treasury portfolio position at 31 March 2023, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
External Debt					
Debt at 1 April	19.069	18.169	17.669	17.828	18.000
Expected change in Debt	(0.900)	(0.500)	0.159	0.172	-
Other long-term liabilities (OLTL)	1.029	1.013	0.996	0.977	0.956
Expected change in OLTL	(0.016)	(0.017)	(0.019)	(0.021)	(0.023)
Actual gross debt at 31 March	**19.182**	**18.665**	**18.805**	**18.956**	**18.933**
The Capital Financing Requirement	**20.093**	**24.465**	**24.297**	**24.864**	**25.074**
Under / (over) borrowing	**0.911**	**5.800**	**5.492**	**5.908**	**6.141**

Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Executive Director of Finance & S.151 Officer reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.

Treasury Indicators: limits to borrowing activity

The operational boundary – Indicator 5

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	31.500	31.500	31.500	31.500
Other long-term liabilities	3.500	3.500	3.500	3.500
Total	35.000	35.000	35.000	35.000

The authorised limit for external debt – Indicator 6

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all authorities' plans, or those of a specific authority, although this power has not yet been exercised.

- The Authority is asked to approve the following authorised limit:

Authorised limit £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	36.500	36.500	36.500	36.500
Other long-term liabilities	3.500	3.500	3.500	3.500
Total	40.000	40.000	40.000	40.000

Prospects for interest rates

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 6 February 2023. These are forecasts for certainty rates, gilt yields plus 80 bps.

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 19.12.22. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Additional notes by Link on this forecast table: -
Our central forecast for interest rates was updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession

of rate increases. Bank Rate stands at 4% currently but is expected to reach a peak of 4.5% in H1 2023.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.5%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium, and longer end of the curve in equal measure now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy, and rent/mortgage payments.

PWLB RATES

1. The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.
2. We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy: -

1. The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

1. **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

2. **The Bank of England** acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

3. **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

4. **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea, and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

1. The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.

2. **The Government** acts too quickly to cut taxes and/or increases expenditure considering the cost-of-living squeeze.

3. **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

4. Longer term **US treasury yields** rise strongly and pull gilt yields up higher than currently forecast.

5. Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields consequently.

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps as follows: -

Average earnings in each year	
2022/23 (remainder)	4.00%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.
Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

Borrowing strategy

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Executive Director of Finance & S.151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

Any decisions will be reported to the Authority in the next Treasury Management report.

Policy on borrowing in advance of need

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

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

Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates. All rescheduling will be reported to the Authority, at the earliest meeting following its action.

New financial institutions as a source of borrowing and / or types of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

Approved Sources of Long and Short-Term Borrowing

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●

UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

ANNUAL INVESTMENT STRATEGY

Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

The Authority's investment policy has regard to the following: -

a) DLUHC's Guidance on Local Government Investments ("the Guidance")
b) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
c) CIPFA Treasury Management Guidance Notes 2021

The Authority's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

- **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

- **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

- This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 4 under the categories of 'specified' and 'non-specified' investments.

  a. **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
  b. **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

- **Non-specified investments limit.** The Authority has determined that it will limit the maximum total exposure to non-specified investments as being 10% of the total investment portfolio.

- **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in the creditworthiness policy.

- **Transaction limits** are set for each type of investment in the creditworthiness policy.

- This authority will set a limit for its investments which are invested for **longer than 365 days**.

- Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.

- This authority has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

- All investments will be denominated in **sterling**.

- As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23).

Creditworthiness policy

The primary principle governing the Authority's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Authority will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.

The Executive Director of Finance/S.151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Authority for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Authority may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Authority criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Authority will only use banks which:
  - a) are UK banks; and/or
  - b) are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AA-

  and have, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where rated):
  - a) Short Term – F1;
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised or it meets the ratings in Banks 1 above;
- Building societies - The Authority will *use* all societies which:
  - a) Meet the ratings for banks outlined above;
- Money Market Funds – £1m limit (each). Subject to £3m maximum;
- Local authorities, Police and Fire and Crime Commissioners - £2m limit (each);
- Debt Management Office (DMO) - £no limit.

Use of additional information other than credit ratings. Additional requirements under the Code require the Authority to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Authority's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long-term Rating (or equivalent)	Money Limit	Transaction Limit	Time Limit
Individual Banks 1&2 higher quality	**F1+**	**£3m**	**£3m**	**364 days**
Individual Banks 1&2 medium Quality	**F1**	**£2m**	**£2m**	**364 days**
Individual UK Building societies	**F1+**	**£3m**	**£3m**	**364 days**
Individual UK Building societies	**F1**	**£2m**	**£2m**	**364 days**
Local authorities/Police, Fire and Crime Commissioners		**£2m**	**£2m**	**364 days**
Money Market Funds	**AAA**	**£1m (each)**	**£1m (each)**	**liquid**

The proposed criteria for specified and non-specified investments are shown in the appendices for approval.

Country and sector limits

Due care will be taken to consider the country, group and sector exposure of the Authority's investments.

The Authority has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in the appendices. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
In addition:

1. limits in place above will apply to a group of companies;
2. sector limits will be monitored regularly for appropriateness.

Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations.
The current forecasts are for the Bank Rate to reach 4.5% in Quarter 2 2023.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	
2022/23 (Remainder)	4.0%
2023/24	4.4%
2024/25	3.3%
2025/26	2.6%
2026/27	2.5%
Years 6 to 10	2.8%
Years 10+	2.8%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Authority is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days is £nil			
£m	**2022/23**	**2023/24**	**2024/25**
Principal sums invested for longer than 365 days	£m	£m	£m
Current investments as at 31.03.23 in excess of 1 year maturing in each year	Nil	Nil	Nil

Investment risk benchmarking

This Authority will use an investment benchmark to assess the investment performance of its investment portfolio of SONIA (Sterling Overnight Index Average).

End of year investment report

At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

Day to day Treasury Management

Kingston Upon Hull City Council manage the Authority's treasury management functions under the terms of a service level agreement in accordance with the approved Annual Treasury Management Strategy.

APPENDICES

(a) Prudential and treasury indicators and MRP statement

(b) Interest rate forecasts

(c) Economic background

(d) Treasury management practice 1 – credit and counterparty risk management

(e) Approved countries for investments

(f) Treasury management scheme of delegation

(g) The treasury management role of the section 151 officer

(h) Capital Strategy

Appendix 1

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2023/24 – 2026/27 AND MRP STATEMENT

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital expenditure

Capital expenditure £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Total	**3.348**	**7.327**	**2.847**	**3.707**	**3.565**

Minimum revenue provision (MRP) policy statement

The Authority is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

DLUHC regulations have been issued which require the Authority to approve **an MRP Statement** in advance of each year. A variety of options are provided to authorities, so long as there is a prudent provision. The Authority is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former DLUHC regulations (option 1);
- **Based on CFR** – MRP will be based on the CFR (option 2).

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). There are 2 options available under this method which are as follows:
    - i. Equal Instalment Method (option 3a)
    - ii. Annuity Method (option 3b)
- **Depreciation method** – MRP will follow standard depreciation accounting procedures (option 4).

These options provide for a reduction in the borrowing need over approximately the asset's life.

As a result of guidance that was recently issued a review was undertaken during 2020/21 to move to the annuity method (option 3b).

Repayments included in annual PFI or finance leases are applied as MRP.
The Authority has historically made Voluntary Revenue Provisions (VRP) of £772k.

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The Authority is asked to approve the following indicators:

Ratio of financing costs to net revenue stream – Indicator 6
This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

%	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Ratios	3.03%	2.81%	3.75%	3.84%	4.07%

The estimates of financing costs include current commitments and the proposals in this budget report.

Maturity structure of borrowing
Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Authority is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2023/24 – Indicator 7		
	Lower	Upper
Under 12 months	0	15%
12 months to 2 years	0	15%
2 years to 5 years	0	30%
5 years to 10 years	0	60%
10 years and above	0	80%

Appendix 2 - Interest rate forecasts

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Appendix 3 – Economic Background

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.
Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	3.5%	2.0%	4.25%-4.50%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	10.7%y/y (Nov)	10.1%y/y (Nov)	7.1%y/y (Nov)
Unemployment Rate	3.7% (Oct)	6.5% (Oct)	3.7% (Nov)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

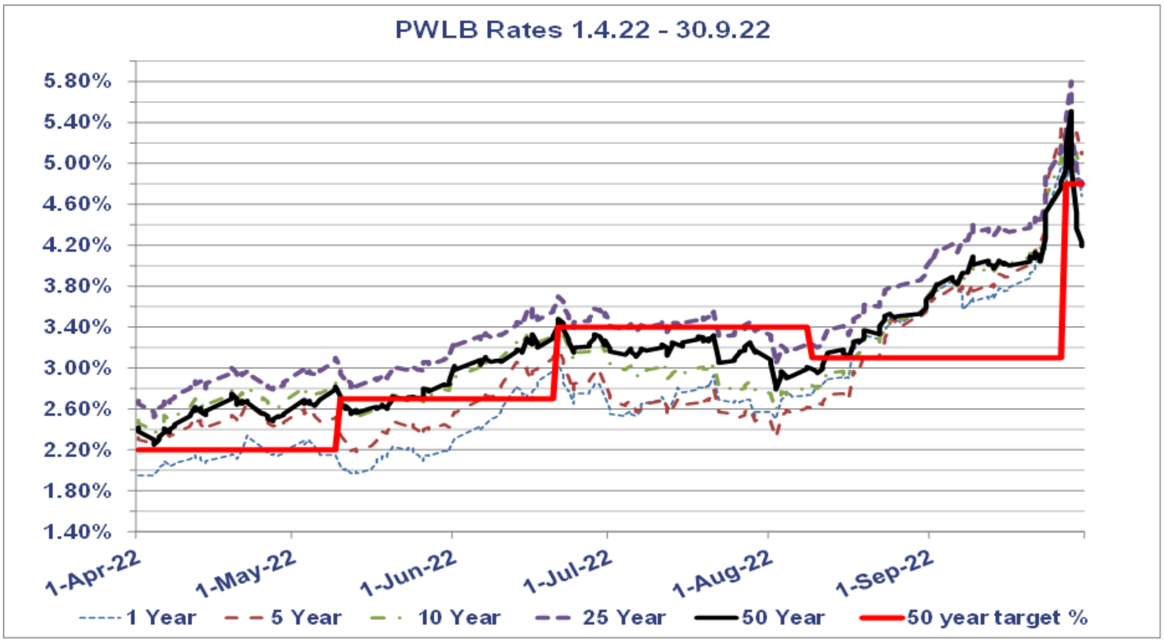
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have almost completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.22. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – DECEMBER 2022

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

<u>**Appendix 4**</u>

TREASURY MANAGEMENT PRACTICE – CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED INVESTMENTS:
(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

	Minimum 'High' Credit Criteria	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies	F1	In-house

Term deposits with nationalised banks and banks and building societies

	Minimum Credit Criteria	**Use**	**Max % of total investments**	**Max. maturity period**
UK part nationalised banks	UK sovereign rating or Short-term F1, Sovereign rating AA-	In-house	**50%**	**364 days**
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Sovereign rating or Short-term F1, Sovereign rating AA-	In-house	**50%**	**364 days**

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Money Market Funds	AAA rated	In-house

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Authority. To ensure that the Authority is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: The Authority will not make investments longer than 1 year

TREASURY MANAGEMENT PRACTICE – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Authority's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Authority to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Authority adopted the Code on 15/02/2010 and will apply its principles to all investment activity. In accordance with the Code, the Executive Director of Corporate Services and S.151 Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments;
- The principles to be used to determine the maximum periods for which funds can be committed;
- Specified investments that the Authority will use. These are high security (i.e. high credit rating, although this is defined by the Authority, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Authority is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, housing association, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society For category 5 this covers bodies with a minimum Short Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies .

Within these bodies, and in accordance with the Code, the Authority has set additional criteria to set the time and amount of monies which will be invested in these bodies.

Non-specified investments –are any other type of investment (i.e. not defined as specified above). The Authority will not use these types of investments.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Authority receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Executive Director of Finance/S.151 Officer, and if required new counterparties which meet the criteria will be added to the list.

Appendix 5

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

AAA

1. Australia
2. Denmark
3. Germany
4. Netherlands
5. Norway
6. Singapore
7. Sweden
8. Switzerland

AA+

9. Canada
10. Finland
11. U.S.A.

AA

12. Abu Dhabi (UAE)
13. France

AA-

14. Belgium
15. Qatar
16. **U.K.**

THIS LIST IS AS AT 19.12.22

Appendix 6

TREASURY MANAGEMENT SCHEME OF DELEGATION

Fire Authority

i. receiving and reviewing reports on treasury management policies, practices and activities;

ii. approval of annual strategy;

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment;
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

Appendix 7

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

1. recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
2. submitting regular treasury management policy reports;
3. submitting budgets and budget variations;
4. receiving and reviewing management information reports;
5. reviewing the performance of the treasury management function;
6. ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
7. ensuring the adequacy of internal audit, and liaising with external audit;
8. recommending the appointment of external service providers;
9. preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
10. ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
11. ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
12. ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
13. ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
14. ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
15. provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
16. ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
17. ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above;
18. creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:-
    a. *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*

Appendix 8

CAPITAL STRATEGY

1. Introduction

1.1 There is a new requirement on local authorities (including fire authorities) to prepare a capital strategy each year, which sets out our approach to capital expenditure and financing at a high level. The requirement to prepare a strategy arises from Government concerns about a small number of authorities borrowing substantial sums (relative to their budget) to invest in commercial property, often outside the area of the authority concerned.

1.2 There is also a new requirement on local authorities to prepare an investment strategy, which specifies our approach to making investments other than day to day treasury management investments (the latter is included in our treasury management strategy, as in previous years). Given that HFA makes no such investments, a strategy has not been prepared.

1.3 This Appendix sets out the proposed capital strategy for approval.

2. Capital Expenditure

2.1 The Authority's capital expenditure plans are approved by the HFA, as part of the budget report each year.

2.2 The capital programme is usually restricted to:-

b) Investment in operational buildings – e.g. fire stations and administrative offices;

c) Renewal of operational fleet;

d) New and replacement firefighting equipment;

e) Investment in ICT.

2.3 The Authority's Constitution sets out the delegations to the Chief Fire Officer & Chief Executive on the delivery of the capital programme.

2.4 Capital expenditure on **buildings**, where funded from the capital programme, is principally directed to maintaining the fitness of the operational estate. Major property investments are considered as part of the overall estates strategy and are approved annually at the December HFA meeting.

2.5 Expenditure on the **renewal of the operational fleet** is directed by the replacement programme approved by the HFA. This is considered and approved each year at the December HFA meeting.

2.6 Capital expenditure on **firefighting equipment** ensures equipment is replaced when it has reached the end of its useful life or has become technologically obsolescent. It also enables the Service to invest in new technology.

2.7 Capital expenditure on **ICT** is determined by the ICT replacement programme which is approved annually at the December HFA meeting.

2.8 Monitoring of capital expenditure is carried out by the Strategic Leadership Team; Governance, Audit and Scrutiny Committee and the HFA. Reports are presented on four occasions during the year and at outturn.

2.9 HFA does not capitalise expenditure, except where it can do so in compliance with proper practices: it does not apply for directions to capitalise revenue expenditure.

2.10 Forecast capital expenditure is:-

End of:	£000
22/23	3,348
23/24	7,327
24/25	2,847
25/26	3,707
26/27	2,565

3. Financing of Capital Expenditure

3.1 HFA funds capital expenditure from the revenue budget, capital receipts and prudential borrowing.

3.2 Prudential borrowing is used to fund capital expenditure, within the limits prescribed within the Annual Treasury Management Strategy Statement. This is reviewed annually for affordability.

3.3 HFA measures its capital financial requirement, which shows our underlying need to borrow for a capital purpose. This is shown in the table below:-

End of:	Underlying CFR	Other LTL	Total CFR
	£000	£000	£000
23/24	23,469	996	24,465
24/25	23,320	977	24,297
25/26	23,908	956	24,864
26/27	24,141	933	25,074

3.4 Projections of actual debt are part of the treasury management indicators in the Annual Treasury Management Strategy Statement.

4. Debt Repayment

4.1 HFA makes charges to the budget each year to repay debt incurred for previous years' capital spending. This is known as "Minimum Revenue Provision" (MRP). The general principle is that HFA seeks to repay debt over the period for which taxpayers enjoy the benefit of the spending it financed. MRP is calculated as:

- 4% of the CFR at the end of the preceding financial year; and
- Based on the useful asset life using the annuity method

5. Commercial Activity

5.1 Government guidance now requires us to specify our policy towards non-financial investments.

5.2 HFA makes no such investments.

Agenda Item No. 8

Governance, Audit and Scrutiny Committee
20 February 2023

Report by the Area Manager of Service Improvement

UK GENERAL DATA PROTECTION REGULATION (GDPR) COMPLIANCE

1. SUMMARY

1.1 The report provides an overview on the current state of the Service's GDPR compliance and a summary of the Service's performance for the financial year 2022/23 so far in relation to data protection.

1.2 In particular, the report covers the following scoping points set by the Committee:

- State of GDPR in the Service in relation to action plan developed with East Riding of Yorkshire Council (ERYC);
- Assurance for Members that the Service is compliant with GDPR;
- Awareness of GDPR across the Service (including training);
- Key risks and vulnerabilities;
- Collecting, processing and storing of data;
- Response standards in relation to freedom of information and subject access requests;
- Controls on devices and use of data;
- Reporting of GDPR breaches and learning from breaches (including a summary of the nature of breaches and any identified patterns).

1.3 Since 2019 the Service has seen a marked improvement and significant increase in data protection (and wider information governance) work to ensure compliance with data protection legislation. As a result, the Service is now in a healthy and compliant position. A recent Internal Audit review undertaken in November 2022 also demonstrates that the Service has a robust data protection framework in place to continually monitor compliance against UK GDPR.

2. MATTER FOR CONSIDERATION

2.1 The Committee may wish to consider the Service's current level of GDPR compliance and endorse the continuing journey of improvement work being undertaken across the service to ensure continuing compliance in relation to data protection legislation since 2019.

3. BACKGROUND

3.1 In May 2019 an audit of the Service's management of data protection related matter was conducted by the East Riding of Yorkshire Council (ERYC), to identify how well the Service was doing in terms of complying with the GDPR legislation that came into force in May 2018.

3.2 Resulting from this a post audit Action Plan was produced detailing the areas in which the Service was falling short of the required standards to be compliant with the legislation and the action necessary to address the issues.

3.3 By March 2021 almost all the issues had been satisfactorily addressed and work was well in hand to deal with the outstanding items. In view of the progress made, the Service transitioned from the Action Plan to an Information Governance Compliance Assessment. The assessment mirrors the Information Commissioner's Office (ICO) Accountability Framework and this is a living document which is used to monitor progress and on-going compliance with data protection legislation. The Information Governance Compliance Assessment requires that senior management receive a report annually on the Service's performance and compliance in this area.

3.4 Since September 2019 the Service has purchased the Information Governance Training and Support Service Level Agreement (SLA) with ERYC, who provide the Data Protection Officer role and monitor compliance.

3.5 The Service has established an Information Governance Compliance Group. The Group meets quarterly, is made up of all Information Asset Owners (Heads of Function), along with others (including the Senior Information Risk Officer) and is chaired by the Area Manager of Service Improvement (see Appendix 2 for Terms of Reference).

3.6 The importance of Data Protection and the need for compliance is recognised by the Service, with its entry on the Risk and Opportunity Register (with a residual risk of 'Medium').

4. REPORT DETAIL

4.1 As evidenced through the Information Governance Compliance Assessment (Appendix 1), the Service now has a healthy level of GDPR compliance across the board. Effort is now being focussed on ensuring full compliance around surveillance cameras, whilst maintaining satisfactory performance in all other areas in which the Service is fully compliant.

Data Processing

4.2 Under Principle 1 (Lawfulness, Fairness and Transparency) of GDPR the Service must identify valid grounds, known as a 'lawful basis', for collecting and using personal data. Of the six lawful bases (Consent, Contract, Legal Obligation, Vital Interest, Public Task and Legitimate Interest), the Service's most commonly used lawful basis is Public Task.

4.3 Each Service function maintains a Record of Processing Activity (ROPA) register, alongside an Information Asset Register (IAR) and Retention Schedule. A piece of work is currently underway to ensure these regularly are maintained and continually updated by Information Asset Owners (IAOs). In particular, the ROPAs are being used to identify areas where a Data Protection Impact Assessment (DPIA) has either not yet been conducted or, due to new processing activity being undertaken, a new one is required to be undertaken.

Data Protection Impact Assessment (DPIA)

4.4 DPIAs are a statutory requirement which ensure the Service can evidence that it has considered privacy issues and has taken action to eliminate data protection risks from any new or changed processing of personal data activity. The DPIA process is a two-stage process; initial screening questions are used to identify processing activity which require a full DPIA (Stage 2). These are escalated to the DPO for approval.

4.5 There are currently 42 DPIAs logged with Corporate Assurance of which 27 are complete.

4.6 Work remains in this area to ensure that the Service is properly assessing data protection and privacy implications prior to making changes to the way in which it processes personal information.

Subject Access Request (SAR)

4.7 The Service logs centrally several different types of requests for access to information, these include:

- Subject Access Requests (SARs) - a request by an individual to access information about themselves.

- Exemptions - a request normally made by other organisations to access information on individuals, for example the Police seeking to access information the Service may hold in relation to criminal offences.

4.8 So far this financial year the Service has processed 10 SARs and 46 exemption requests. The tables below show a comparison of figures over the past three financial years, depicting a year-on-year increase of requests.

Subject Access Requests (SARs)	**2020/21**	**2021/22**	**2022/23**
Number of valid SARs received	4	9	10
% SARs completed within deadline	100%	100%	100%

Exemption requests (ie from Police)	**2020/21**	**2021/22**	**2022/23**
Number of requests	Data not available	6	46

4.9 The Service has not received any requests for rectification or objection, but has received two requests for erasure.

Information security

4.10 Since the Service experienced a Cyber incident in May 2022, ICT security defences have been further strengthened from this ever-evolving threat and continues to work with the third-party security specialist to implement further security measures to enhance the existing extensive security systems. This has included the roll-out of Carbon Black, an advanced end point detection tool.

4.11 Having migrated almost all systems to the Cloud and security log-on credentials required on all individual devices and systems, the Service takes its information security seriously. The Service has in place an Information Security Policy.

Data breaches

4.12 During 2022/23 there have been 8 confirmed personal data breaches reported within the 48-hour window as stipulated under the Service's Data Protection Policy. One of those breaches (the cyber incident in May 2022) was reportable to the ICO and done so within the statutory 72-hour period. The table below shows a comparison of figures over the previous financial years. It is presumed the increase is more a result of greater awareness of data protection, rather than a greater number of errors being made in the processing/management of data.

	2020/21	**2021/22**	**2022/23**
Number of breaches reported	7	11	11
Number of breaches confirmed	2	6	7

4.13 The Service has become more proactive at reporting breaches, with a recent awareness raising campaign having been undertaken across Autumn 2022. This included the launch of a dedicated email address for reporting personal data breaches, articles in the staff magazine (Siren) providing examples of common types of data breaches and how to avoid them, PC and laptop screensaver messages and posters for displaying across the estate (see Appendix 3 for examples). The Service also has in place an out of hours (evenings and weekends/bank holidays) reporting process to ensure that any potential breaches during these periods can still be reported by individuals, investigated as appropriate and, if necessary, reported to the ICO within the 72-hour statutory window.

4.14 The table below shows the breaches during 2022/23 broken down by the nature of the issue:

Nature of Query	**Number of Breaches**	**Percentage of Breaches**
Email related	2	18.2%

Nature of Query	Number of Breaches	Percentage of Breaches
Accuracy	1	9%
Security	3	27.3%
Published/shared in error	3	27.3%
Unable to access	2	18.2%
TOTAL	**11**	**100%**

4.15 Investigation of breaches has resulted in 38 findings being identified and actions taken to address the issues identified.

Freedom of Information (FOI) requests

4.17 So far this financial year the Service has received 53 FOI applications. A comparison of the number of requests over the last few financial years is provided below:

FOI	Total	20-day response
2020/21	121	100%
2021/22	65	100%
2022/23	53	94.3% *

* 20-day response target not met requests due to the cyber incident

Data Protection training

4.18 The Service launched a wholly revised data protection eLearning package in September 2020. This is a mandatory module designed to raise staff awareness of the subject. In addition, several webinars were delivered by ERYC for senior officers.

4.19 The Service must ensure that all staff are trained in data protection every two years. Completion of this training is monitored on a quarterly basis and validity has consistently exceeded 95 per cent since February 2021. Due to the anniversary of the biennial refresh having just elapsed, staff validity has temporarily dropped to 87 per cent. A series of reminders are being sent out (including via the Strategic and Managerial Daily Briefings) to those staff whose validity has expired.

4.20 A new Information Governance site, which includes a number of Data Protection materials and accessibility documents has recently been launched on the Intranet to make it easier for staff to access the necessary data protection information and guidance documents. A manager and staff Data Protection guidance booklet is also due to be released shortly to complement the existing package of learning material available for staff to access on data protection.

4.21 The newly launched (January 2023) mandatory Records Management eLearning package will also help to continue to raise further awareness of data protection and the individual responsibility for all staff to be compliant with data protection legislation requirements.

Internal Audit - Assurance Review of Service GDPR

4.22 Internal Audit (TiAA) undertook a three-day audit on the Service's compliance under GDPR in November 2022.

4.23 The audit provided a level of 'Reasonable Assurance', the second highest level of assurance offered, which means the Service has adequate and effective governance, risk and control processes in place.

4.24 Key strategic findings of the audit were:

- A robust data protection framework is in place.

- Due to organisational restructuring, Information Asset Registers (IAR) and Record of Processing Activities (ROPA) are planned for review.
- As Corporate Assurance are reliant on all staff to bring data protection issues to their attention, Data Protection by Design needs to be embedded.
- Compliance with mandatory data protection training reduced in quarter 3.

4.25 Good practice was identified across the Service which included:

- Use of an external DPO which ensures the role has the required independence and mitigates the risk, or perception of, any conflict of interests;
- Use of the ICO's Accountability Framework to drive continuous improvement in the Service's data protection arrangements.

4.26 The audit made 3 recommendations and 1 advisory note as detailed below:

Recommendation	
1.	It be ensured that Corporate Assurance are involved with any projects and initiatives where personal data is involved.
2.	It be ensured IARs and ROPAs are reviewed and updated as planned
3.	It be ensured staff comply with their obligation to complete data protection awareness training.
Advisory Note	
1.	As good practice, the Service consider also linking to the privacy notices from the existing 'Privacy Policy' link.

4.27 The audit recommendations were as expected and in line with the ongoing Information Governance Compliance Assessment. A detailed action plan has be drawn up to address the findings of the audit and have also been entered onto the Service Improvement Plan.

Key risks and vulnerabilities

4.28 Work is continuing to ensure that data protection by design is embedded within the Service by staff, particularly when considering changing existing processes that involve personal data or new ones.

4.29 Whilst recognised as an area for improvement, the maintenance and updating of Information Registers (ROPAs, IARs and Retention Schedules) by IAOs across the Service is an improving picture with a much more focussed effort by IAOs to ensure that Retention Schedules are routinely acted upon.

4.30 A more detailed piece of work needs to be undertaken to review the current Information Sharing Agreement (ISA) register to ensure this is up to date and the necessary checks and balances are in place within each agreement.

5. EQUALITY IMPLICATIONS

5.1 There is no requirement to carry out an equality impact analysis as this report does not relate to a policy or service delivery change.

6. CONCLUSION

6.1 Since 2019 the Service has seen a marked improvement and significant increase in data protection (and wider information governance) work to ensure compliance with data protection legislation. As a result, the Service is now in a healthy and compliant position. The recent Internal Audit review of November 2022 also demonstrates that the Service has a robust data protection framework is in place to continually monitor compliance against UK GDPR.

6.2 Data protection (and wider information governance) work continues to evolve at pace, and with Senior Officers and Heads of Function continuing to work closely with the Corporate Assurance team, supported by the DPO at East Riding of Yorkshire Council, this continues to increase awareness of data protection and a high level of compliance across the Service.

6.3 Members should take assurance that the Service is compliant with GDPR and data protection legislation and that it will continue to do so.

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Background Papers

None

Glossary/Abbreviations

DPIA	Data Protection Impact Assessment
DPO	Data Protection Officer
FOI	Freedom of Information
GDPR	General Data Protection Regulation
IAO	Information Asset Owner
IAR	Information Asset Register
ICO	Information Commissioner's Office
ISA	Information Sharing Agreement
ROPA	Record of Processing Activity
SAR	Subject Access Request
SLA	Service Level Agreement

Appendix 1

Humberside Fire and Rescue Service Information Governance Compliance Assessment (December 2022)

Ref	Outcome	Required Documents/Procedures	In place/ evidence
Leadership and Oversight			
1.	Service is registered with the ICO	Listed on the ICO website.	Z5461052
2.	Clear management structure with a process of accountability and responsibility, leading to effective data protection compliance.	HFRS have appointed a DPO.	✓ Yes ☐ No
		Evidence can be supplied to demonstrate to the Heads of Function, Senior Managers and DPO are updated on Information Governance issues.	✓ Yes ☐ No
Policies and Procedures			
3.	Policies and Procedures are in place setting out clear guidance for all areas of Information Governance.	HFRS has an up to date Data Protection Policy.	✓ Yes ☐ No
		Data Protection Policy published on the website and intranet.	✓ Yes ☐ No
		Records Management Policy is published on the website and intranet.	✓ Yes ☐ No
		Surveillance Camera Policy (CCTV) up to date and it is published on the website and intranet	✓ Yes ☐ No ☐ Not applicable
		Information Security Policy up to date and it is published on the website and intranet	✓ Yes ☐ No ☐ Not applicable
		Information Classification Policy up to date and it is published on the website and intranet	✓ Yes ☐ No ☐ Not applicable
Training and Awareness			
4.	HFRS should ensure that both new staff are trained at the start of their employment, and also that all staff are given refresher training.	Induction checklist/process for new members of staff.	✓ Yes ☐ No
		E-Learning training for members of staff, including volunteers in place.	✓ Yes ☐ No
		Booklet (or low risk) training for members of staff who have less contact or responsibilities within the organisation *e.g. catering staff, caretakers*.	☐ Yes ✓ No
5.	Build upon initial training, and where there is requirement further training may be necessary.	Refresh of Data Protection training at least every two years.	✓ Yes ☐ No
		Records Management training in place, for those who require it.	✓ Yes ☐ No
		Refresh of Records Management training at least every two years.	✓ Yes ☐ No
Transparency			
6.	Review of the types of processing that is undertaken and the lawful basis for processing has been clearly documented.	Privacy notices have been produced where required.	✓ Yes ☐ No
		Additional data collection or specific programmes/activities have additional privacy notices to support this.	✓ Yes ☐ No ☐ Not required

Ref	Outcome	Required Documents/Procedures	In place/ evidence
		Lawful basis for processing data is captured on either the Information Asset Register (IAR) or Register of Processing Activities (ROPA).	✓ Yes No
Consent			
7.	Where online services are used either to support public safety functions, or additional services to employees the use has been carefully considered and consents in place where required.	Consent forms are in place (where required). Where consent is not used staff and members of the public should be clear around what information is collected and used.	✓ Yes ☐ No
		Privacy notices for these additional services have been produced by HFRS and further information given to those who require it.	✓ Yes ☐ No
8.	Collection of data is clear and transparent. Where consent is relied upon the consent it specific, explicit and auditable.	Data collection forms should be transparent, clear and specific about why the data is being collected. They should also include a link to the relevant privacy notice.	✓ Yes ☐ No
		Consent forms have been used for photographic/video use, and there is a clear distinction about using images internally and externally within the Service E.g. training and marketing materials.	✓ Yes ☐ No
		Consent is reviewed on a regular basis.	✓ Yes ☐ No
		The Service has public information leaflets and consent forms where required.	✓ Yes ☐ No
Contracts and Information Sharing			
9.	Contracts and third-party processing has been evidenced so that there is clear working relationships in place, with expectations of data sharing.	All contracts with third parties have been checked to ensure that they are suitable in terms of security and data protection.	✓ Yes ☐ No
		All processing agreements have been checked to ensure that what data they are accessing is suitable and protected.	✓ Yes ☐ No
		Procurement process in place. There should also be a process in place so that when a new system etc is procured the relevant supporting items are also produced e.g. DPIA, additional privacy notices.	✓ Yes ☐ No
10.	Information Sharing Agreements (ISAs) have a clear and documented process, with a senior member of staff signing off each agreement.	Clear process and guidance in place around ISAs (information sharing agreements)	✓ Yes ☐ No
		All ISAs are checked before signing, to be clear of the expectations of each party.	✓ Yes ☐ No

Ref	Outcome	Required Documents/Procedures	In place/ evidence
		ISA are reviewed and updated as and when required, as under the terms of the original agreement.	✓ Yes ☐ No
		All ISAs are documented and centrally filed. There should be a central log of who the Service is sharing information with, a main contact between the organisations and a review date.	✓ Yes ☐ No
Disclosure, Erasure and Rectification of Information			
11.	Clear process in place for request for disclosures of information, from individuals, third parties or organisations.	Email address to handle data protection issues or queries which is visible for people on the Service website.	✓ Yes ☐ No
		Staff are aware of what a request for information looks like, and the different types of requests (SARs, Exemption Requests e.g. DBS, Police, HMRC).	✓ Yes ☐ No
		Staff are aware of response times for each type of request.	✓ Yes ☐ No
		Redaction process to ensure only relevant and permissible information is disclosed.	✓ Yes ☐ No
		Log in place of all requests received, including CCTV requests that relate to personal data.	✓ Yes ☐ No
		Evidence of all requests, what has been released as part of that request, the reasons behind what has been disclosed and a sign off procedure before release.	✓ Yes ☐ No
		Quality monitoring of SAR requests, to ensure that these are being completed within the statutory timeframes.	✓ Yes ☐ No
12.	Clear process in place for requests for rectification of information held by the Service and erasure of information.	Staff awareness of rectification and erasure requests.	✓ Yes ☐ No
		Procedure in place to deal with rectification and erasure requests.	✓ Yes ☐ No
		Log in place of any requests received.	✓ Yes ☐ No
Breach Response and Monitoring			
13.	Where there has been suspected breaches or loss of information there are processes in place to prevent occurrence and limit possible damage.	Staff aware of the 72 hour deadline to report all possible breaches, and who is the main contact.	✓ Yes ☐ No
		The DPO is made aware of all reported breaches to ensure that reoccurrence can be prevented.	✓ Yes ☐ No
		Awareness of the need to update data subjects or contact the ICO in certain circumstances.	✓ Yes ☐ No

Ref	Outcome	Required Documents/Procedures	In place/ evidence
		Quality monitoring of suspected data protection breaches and ensuring that any action plans based on these are completed.	✓ Yes ☐ No
		Log of all breaches that have been reported and the outcome of the investigation.	✓ Yes ☐ No
		Where the breach links to another organisation or company these are logged and reported to the other party. Joint investigations take places where required.	✓ Yes ☐ No
14.	Secure methods of communication in place	Staff are aware of how to recall emails if sent incorrectly, and where this will not be possible, they should contact the DPO.	✓ Yes ☐ No
		Communication that is sent by letter has a returned address on the back so that misdirected mail can be returned.	✓ Yes ☐ No
15.	Disaster and continuity planning to ensure the Service continues to run even under difficult or unforeseen circumstances	Process in place to ensure that the Service can continue to function after any disastrous event e.g. flooding, pandemics.	✓ Yes ☐ No
		Working from home policy established or guidance in place so that staff are able to continue to function remotely.	✓ Yes ☐ No
		Plans are in place to manage incidents such as computer systems affected by a virus or ransomware, for example Isolated computer equipment is in operation on various site so that the Service can continue to run without a loss of data.	✓ Yes ☐ No
Records Management			
16.	Records of information governance compliance and awareness.	Supporting materials are available *E.g. posters, awareness raising, newsletters to highlight key issues*	✓ Yes ☐ No
		Data Protection audit plan produced and presented to Heads of Function, Senior Managers and DPO team for review.	✓ Yes ☐ No
		Audit/risk report produced and presented to Heads of Function, Senior Managers and DPO for review.	✓ Yes ☐ No
		Action plans produced based on the results of audits, and these actions to be checked for completeness in the next review.	✓ Yes ☐ No
17.	All records held by the Service remain appropriate and documented.	Information Asset Register (IAR) and Records of Processing Activities (ROPA) are kept up to date to ensure that all staff are aware of what data is being collected and stored.	✓ Yes ☐ No
		Retention schedule in place for all items held within the Service. This should link to all items on the IAR and ROPA.	✓ Yes ☐ No

Ref	Outcome	Required Documents/Procedures	In place/ evidence
		Clear email policy to ensure that emails are managed consistently, such as emails are retained for a suitable retention period.	✓ Yes ☐ No
		Secure and confidential disposal process in place for all items that have reached the end of the retention period.	✓ Yes ☐ No
		Archive process in place for all records which should be retained for historical or research purposes.	✓ Yes ☐ No
		Log kept of all destroyed items	✓ Yes ☐ No
		Secure destruction of confidential information (on a daily basis) is in place either by a cross-cut shredder or suitable third-party company.	✓ Yes ☐ No
18.	Data quality is ensured with, appropriate checks in place and updating of information where required.	Change of details are checked before being updated to ensure accuracy. Where verbal updates are given, and accepted, there should be a log made of the change.	✓ Yes ☐ No
19.	Staff awareness, to ensure that staff remain up to date with all the Service's policies and procedures. There should be a range of communication methods such as team meetings, intranet updates for staff, and direct email around relevant issues.	Relevant documentation and forms available on either the intranet or other central hub.	✓ Yes ☐ No
		Posters displayed in relevant areas.	✓ Yes ☐ No
		Emails directly to staff to raise awareness and to keep the issues at the forefront.	✓ Yes ☐ No
		Regular item on staff meeting agendas around different topics of data protection issues.	✓ Yes ☐ No
Security			
20.	Staff access to all records is restricted and appropriate. The Service equipment and site are kept secure to prevent both breaches of information and loss of information.	Staff access to shared drives is restricted according to job roles.	✓ Yes ☐ No
		Leaver process in place to ensure that all access to both the Service buildings and equipment/files is removed.	✓ Yes ☐ No
		All Service data is backed up on secure servers. These should be frequent (at least weekly) and all computers (including laptops or iPads) should be connected to the backup process.	✓ Yes ☐ No
		Paper files have been secured appropriately. Sign in/out process in place for all paper files.	✓ Yes ☐ No
		All printers are required to have a password/log in process so that sensitive information is not accessed by the wrong person.	✓ Yes ☐ No

Ref	Outcome	Required Documents/Procedures	In place/ evidence
		ID process in place to have a clear distinction of staff and visitors onto the any site.	✓ Yes ☐ No
		IT register of all equipment in use and assigned to an owner for responsibility.	✓ Yes ☐ No
		Desktop locks or lockable cupboards in use for laptops/iPads to ensure they are kept secure when not in use.	✓ Yes ☐ No
		All computer screens are locked when not in use or left for a period of time. There may be the use of auto locking.	✓ Yes ☐ No
21.	Any use of personal computers/phones is supported by appropriate policies and procedures.	Password quality checks, and requirement in place to have both passwords and encryption in place for all removable items.	✓ Yes ☐ No
		Bring your Own Device policy in place if own devices are used by staff for Service business.	☐ Yes ☐ No ✓ N/A
		Appropriate security checks in place for any portable devices.	✓ Yes ☐ No
		Remote locking of devices is available if a loss where to occur.	✓ Yes ☐ No
Data Protection Impact Assessments (DPIAs)			
22.	Data Protection is considered by default and when designing new procedures and policies.	Data Protection Impact assessments (DPIA) have been produced to ensure that there is data minimisation and transparency.	✓ Yes ☐ No
		DPIA Log and sign off process in place.	✓ Yes ☐ No
		Awareness raising around the DPIA process so that staff are aware of when this needs to be completed.	✓ Yes ☐ No
23.	Technology such as cashless payments (biometrics) systems have the appropriate measures in place.	Where fingerprint recognition systems are used for example, for electronic door entry systems, it will require a DPIA and appropriate policy to be in place.	☐ Yes ☐ No ✓ N/A
		Any new technology that is being considered for use within the Service should have a DPIA assessment to ensure the technology on offer is the most appropriate one to use.	✓ Yes ☐ No
Surveillance Cameras			
24.	CCTV systems have appropriate checks and security in place to	A DPIA has been completed to check that a CCTV system is the most appropriate way of monitoring.	☐ Yes ✓ No

Ref	Outcome	Required Documents/Procedures	In place/ evidence
	ensure that they are compliant and suitable.	The Service has a CCTV Policy and Code of Practice (for each system) in place.	☐ Yes ✓ No
		There are signs in place at the entrance to the areas that are capturing images.	☐ Yes ✓ No
		Central list of all cameras (in all types of systems) should be held by Corporate Assurance.	☐ Yes ✓ No
		Contact details are easy to find for the owner of the system, and how to request imagery.	☐ Yes ✓ No

Appendix 2

Terms of Reference - Information Governance Compliance Group

Aim

The purpose of the Group and any agreed task and finish sub-working groups is to support, promote and enable Service-wide compliance in all matters relating to Information Governance.

Objectives

1. To support the work of the Senior Information Risk Officer (SIRO) and Data Protection Officer (DPO) in ensuring service-wide compliance and accountability for Information Governance.

2. To develop and support practical opportunities to implement changes that enable Information Governance service improvement, to identify matters for inclusion on the Service Improvement Plan or for the making of recommendations to the Executive Team.

3. To assess arising risks and opportunities for inclusion on the Risk Register or the making of recommendations to the Executive Team.

4. To monitor receive and consider reports into data loss or data security incidents and where appropriate to undertake or recommend remedial action.

5. To monitor, review and where necessary update policies and procedures relating to information security and governance.

6. To provide coordinated, consistent and clear information to all staff groups in relation to Information Governance and any relevant issues and decisions made by the Group.

7. To support cultural change and development of the workforce in Information Governance compliance.

8. To promote best practice and encourage consistency in matters of information governance across the Service.

9. To review the terms of reference (TOR) at least annually and update them as needed to respond to changes in the organisation or to external drivers or requirements.

Membership

The membership of the Group is made up of all Heads of Function (Grade 13 and Group Manager), plus the SIRO, Senior Corporate Assurance Officer and Information Governance Officer.

If Members of the Group are unable to attend a meeting, then a suitably briefed and authorised deputy/representative should be appointed to attend in their absence and act on their behalf.

Chair

Meetings will be chaired by the Area Manager for Service Improvement or in their absence the Head of Corporate Assurance.

Quorum

The quorum for meetings is 8.

Venue and Frequency of meetings

The Group will be primarily **in-person** meetings, in the Conference Room SHQ (subject to availability). Meetings will be held quarterly. An MS Teams invitation will be provided for Members unable to attend in person, as a *secondary* means of attending the meeting.

Meetings will take place on a quarterly basis, the month following the end of the quarter in order to be able to receive, consider and react to the most recent position statement as provided by the Compliance Assessment.

Agenda and all supporting papers will aim to be circulated at least 5 days in advance of the meeting.

Reporting Arrangements

The Chair of the Group will report by exception to the SIRO and Executive Team. The Senior Corporate Assurance Officer/Information Governance Officer will report by exception to the DPO.

Standing Agenda Items

A standard agenda will be used by the Chair:

1. Action Tracker
2. Any items for discussion/information (in advance of the agenda being distributed)
3. Records Management – monitoring/development/actions required
4. Information Governance Compliance - monitoring/development/actions required
5. Confirmation of future meeting dates
6. AOB

Secretariat

The secretariat will be provided by the PA to the AMs.

Appendix 3

Article in Siren (Staff Magazine)

Reporting Personal Data Breaches

New email address for reporting personal data breaches

It is everyone's responsibility to report any suspected personal data breaches as soon as they think one may have occurred.

Personal data is any information about a living person which can be used to identify them or help to identify them, such as name, address, email address, Service number, etc.

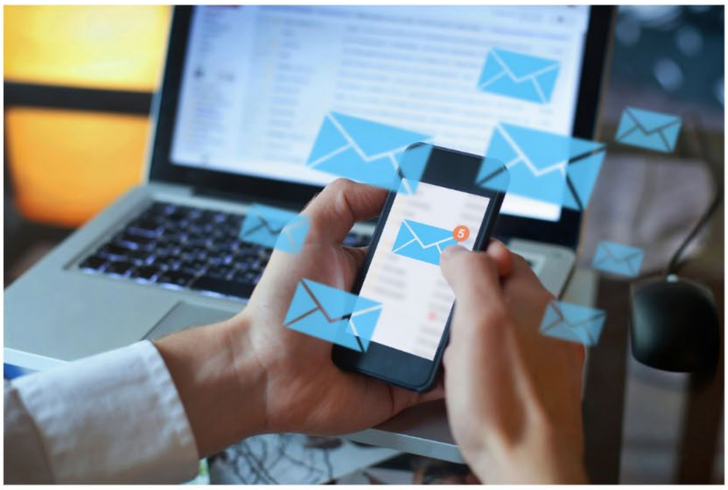
Any suspected data breaches must be reported immediately to: databreach@humbersidefire.gov.uk or call (01482) 565333 and ask to speak to Corporate Assurance

Click here for all information >

Poster 1 for Service Buildings

Reporting Personal Data Breaches

New email address for reporting personal data breaches



Any suspected data breaches must be reported immediately to: **databreach@humbersidefire.gov.uk** or call (01482) 565333 and ask to speak to Corporate Assurance

It is everyone's responsibility to report any suspected personal data breaches as soon as they think one may have occurred.

Personal data is any information about a living person which can be used to identify them or help to identify them, such as name, address, email address, Service number, etc.

Poster 2 for Service Buildings

Reporting Personal Data Breaches

A personal data breach means a breach of security leading to the accidental or unlawful destruction, loss, alteration, unauthorised disclosure of, or access to, personal data.

This might mean:

- Sending an email containing personal data to the wrong person
- sending a bulk email using 'to' or 'cc', but where 'bcc' (blind carbon-copy) should have been used
- leaving print outs containing personal data on a printer or unattended as they print out (ie documents that automatically print rather than going to a secure mailbox)
- leaving confidential files or reports containing personal data on show whilst away from your desk (you should lock away in drawer or cupboard when leaving your desk)
- loss or theft of a physical file or electronic device (USB drives, computers or mobile devices etc) containing personal data
- A ransomware attack whereby access to systems or records containing personal data is disabled or encrypted;
- A cybersecurity attack whereby personal data is accessed, altered, deleted and/or disclosed by the attacker.

Any suspected data breaches must be reported immediately to: **databreach@humbersidefire.gov.uk**

SCREEN SAVER

Agenda Item No. 9

Governance, Audit and Scrutiny Committee
20 February 2023

Report by the Secretary & Monitoring Officer

GAS COMMITTEE SCRUTINY PROGRAMME 2022/23

1. SUMMARY

1.1 This paper summarises the Governance, Audit and Scrutiny (GAS) Committee's Scrutiny Programme 2022/23. Each year, the Committee will programme a number of specific, defined scrutiny items complete with scopes in order that relevant officers can focus their reports.

1.2 Appendix 1 to this report will serve as a point of reference for report-writers and as a 'living document' during the year for the Committee as it considers the scopes for its scrutiny items.

2. MATTER FOR CONSIDERATION

2.1 The Committee to receive any updates and approve changes to its scrutiny programme as necessary.

3. BACKGROUND

3.1 Public scrutiny is a corporate process undertaken by the Committee, appointed by the Fire Authority for its breadth of professional experience.

4. REPORT DETAIL & OPTIONS/PROPOSALS

4.1 Appendix 1 of this report sets out the topics and scopes for consideration and review as necessary.

5. EQUALITY IMPLICATIONS

5.1 There is no requirement to carry out an equality impact analysis as this report does not relate to a policy or service delivery change.

6. CONCLUSION

6.1 The Committee is requested to receive any updates and approve changes to its scrutiny programme as necessary.

Lisa Nicholson
Secretary & Monitoring Officer

Officer Contact

Rob Close – Committee Manager
☎ 01482 393899
✉ committeemanager@humbersidefire.gov.uk

Background Papers

None

Glossary/Abbreviations

GAS	Governance, Audit and Scrutiny Committee

Appendix 1

GAS Committee Scrutiny Programme 2022/23		
Meeting Date	**Responsible Officer**	**Item and Scope**
4 July 2022	**Director of Service Improvement**	**Fire Standards** • Origin of fire standards. • Current fire standards. • Likely future fire standards. • Impact of fire standards on service delivery and quality. • Timeliness of adoption of new fire standards. • Impact on policy and strategy (particularly the Service Improvement Plan, Strategic Risk Register and Community Risk Management Plan). • Embedding changes introduced by fire standards (including reference to training and examples of the process of embedding fire standards). • Reporting on performance in relation to fire standards. • Assurance for Members around adoption and performance in relation to fire standards. • Impact of major incidents on fire standards.
14 November 2022	**Executive Director of Finance/Section 151 Officer & Head of Finance**	**Procurement** • Assurance around compliance, ethics and value for money. • Calculation of value for money. • Environmental and climate considerations. • Safeguarding considerations and ethical requirements in relation to contractors. • Prioritisation of local procurement and weighting in the procurement process (with particular reference to capital projects). • Joint procurement - how it has worked in the past and impacts on ethics and standards. • Research and development procurement. • Potential standardisation of procurement nationally and the impact of guidance like the Fire Standards. Revenue expenditure compared to capital expenditure.
23 January 2023	**Executive Director of People and Development**	**Equality, Diversity and Inclusion - Equality Impact Analysis** • Criteria for the use/requirement of Equality Impact Analyses (EIA) (including the relevant policies as background papers). • Training for managers/writers (with particular reference to the decision not to undertake an EIA). • Publication of EIAs. • Quality assurance of EIAs. • Impact of EIAs on decisions and how they are followed up. • Learning from individual EIA outcomes.

GAS Committee Scrutiny Programme 2022/23		
Meeting Date	**Responsible Officer**	**Item and Scope**
20 February 2023	**Area Manager of Service Improvement**	**General Data Protection Regulation** • State of GDPR in the Service in relation to action plan developed with East Riding of Yorkshire Council. • Assurance for Members that the Service is compliant with GDPR. • Awareness of GDPR across the Service (including training). • Key risks and vulnerabilities. • Collecting, processing and storing of data. • Response standards in relation to freedom of information and subject access requests. • Controls on devices and use of data. • Reporting of GDPR breaches and learning from breaches (including a summary of the nature of breaches and any identified patterns).
10 April 2023	**TBC**	Topic to be decided following the publication of the HMICFRS inspection report in summer 2022.