

Audit Committee Agenda



**10.00 am Wednesday, 20 November
2019**

**Committee Room No. 2, Town Hall,
Darlington. DL1 5QT**

**Members of the Public are welcome to attend this
Meeting.**

1. Introductions/Attendance at Meeting
2. Declarations of Interest
3. To approve the Minutes of the last meeting of this Committee held on 31 July 2019 (Pages 1 - 4)
4. Annual Audit Letter 2018/19 –
Report of the Managing Director
(Pages 5 - 30)
5. Mid Year Prudential Indicators and Treasury Management Monitoring Report
2019/20 –
Report of the Managing Director
(Pages 31 - 48)
6. Ethical Governance and Member Standards - Update Report –
Report of the Managing Director
(Pages 49 - 58)
7. Information Governance Programme Progress Report –
Report of the Managing Director
(Pages 59 - 64)
8. ICT Strategy - Implementation Progress Report –
Report of the Assistant Director – Xentrall Shared Services
(Pages 65 - 68)
9. Audit Services Annual Audit Plan 2019/20 - Progress Report –
Report of the Audit and Risk Manager

(Pages 69 - 82)

10. SUPPLEMENTARY ITEM(S) (if any) which in the opinion of the Chair of this Committee are of an urgent nature and can be discussed at this meeting

11. Questions



Luke Swinhoe
Assistant Director Law and Governance

Tuesday, 12 November 2019

Town Hall
Darlington.

Membership

Councillors Durham, Baldwin, Crudass, Howell, McEwan and Paley

If you need this information in a different language or format or you have any other queries on this agenda please contact Allison Hill, Democratic Officer, Resources Group, during normal office hours 8.30 a.m. to 4.45 p.m. Mondays to Thursdays and 8.30 a.m. to 4.15 p.m. Fridays E-Mail : Allison.hill@darlington.gov.uk or telephone 01325 405997

AUDIT COMMITTEE
Wednesday, 31 July 2019

PRESENT – Councillors Durham (Chair), Baldwin, Crudass, Howell and McEwan

APOLOGIES – Councillor Paley

ALSO IN ATTENDANCE – Nicola Wright and Claire Mellons (Ernst and Young LLP)

OFFICERS IN ATTENDANCE – Peter Carrick (Finance Manager Central/Treasury Management), Andrew Barber (Audit and Risk Manager, Stockton Borough Council) and Allison Hill (Democratic Officer)

A15 DECLARATIONS OF INTEREST

RESOLVED – There were no declarations of interest reported at this meeting.

A16 MINUTES

Submitted – The Minutes (previously circulated) of a meeting of this Committee held on 19 June 2019.

RESOLVED – That the Minutes be approved as a correct record.

A17 TREASURY MANAGEMENT ANNUAL AND OUTTURN PRUDENTIAL INDICATORS 2018/19

The Managing Director submitted a report (previously circulated) to provide important information regarding the regulation and management of the Council's borrowing, investments and cash-flow, as a requirement of the Council's reporting procedures and outlined treasury activity for 2018/19.

The report also sought Members approval of the Prudential Indicators for 2018/19 in accordance with the Prudential Code.

It was reported that for the financial year 2018/19 presented similar circumstances to 2017/18 with regard to treasury management and the main implications of this for the Council were included in the submitted report.

The submitted report summarised the capital expenditure and financing for 2018/19; the Council's underlying borrowing need; the Treasury position as at 31 March 2019; prudential indicators and compliance issues; the economic background for 2018/19; treasury management activity during 2018/19; and performance and risk benchmarking.

It was also reported that the Council's treasury management activity during 2018/19 had been carried out in accordance with the Council policy and within legal limits; financing costs had been reduced during the year and a saving of £0.661m had been achieved from the original Medium-Term Financial Plan.

RESOLVED – (a) That the outturn 2018/19 Prudential Indicators within the submitted report and those in Appendix 1 be noted.

(b) That the Treasury Management Annual Report for 2018/19 be noted.

(c) That the submitted report be forwarded to Cabinet and Council in order for the 2018/19 Prudential Indicators to be noted.

A18 ANNUAL RISK MANAGEMENT REPORT 2018/19

The Managing Director submitted a report (previously circulated) to update Members on the approach to and outcomes from the Council's Risk Management processes.

It was noted that progress continued to be made within the Authority regarding the management of key strategic risks and with the work undertaken by Officers to manage operational risk.

Particularly discussion ensued on the risks identified as above the risk appetite line in relation to Children and Adults.

RESOLVED – That the submitted report be noted.

A19 MANAGERS' ASSURANCE STATEMENTS

The Managing Director submitted a report (previously circulated) advising Members of the outcome of the 2018/19 Managers' Assurance Statements (MAS).

It was reported that the MAS was a key element of the Council's corporate governance arrangements and, based on the 2018/19 returns, had identified an overall positive position.

It was also reported that although no common improvement themes had been highlighted in the 2018/19 returns, other matters raised included ensuring inventories are up to date, robust information management arrangements to be in place and to ensure that officers are fully aware of risk and financial management processes and the role and responsibility of the Monitoring Officer and Section 151 Officer. These matters to be progressed by the Assistant Directors during 2019/20.

RESOLVED – That the report be noted.

A20 ANNUAL REVIEW OF SIGNIFICANT PARTNERSHIPS 2018/19

The Managing Director submitted a report (previously circulated) presenting the outcome of the annual review of significant partnerships to enable this Committee to consider the partnerships that the Council was involved with and to ensure that they had adequate governance arrangements in place.

It was reported that, through the principles of the partnership toolkit, the Council had an established approach to monitoring the significant partnerships it was involved with and, as a result, there were good governance arrangements in place for these

partnerships and that they were delivering well against their objectives.

It was also reported that the toolkit had been effective in identifying high level concerns of the significant partnerships, the most common of which were levels of resourcing, uncertainty as a result of the emerging policy and fundamental changes in operating landscape.

RESOLVED – That the review of significant partnerships be endorsed and the actions being taken to address outstanding issues be noted.

A21 AUDIT OF ACCOUNTS 2018/19

The Managing Director submitted a report (previously circulated) providing Members with information on the outcomes of the external audit by Ernst and Young LLP (EY), of the Council's accounts for the year ended 31 March 2019.

It was reported that, in accordance with statutory requirements, EY had audited the accounts and a copy of the report which outlined the results of their findings from the audit were outlined in the plan presented to this Committee in March 2019.

Nicola Wright from EY advised Members that the audit work on the accounts had been completed and that an unqualified opinion on the Council's 2018/19 accounts would be issued; concluded that the Council had put in place proper arrangements to secure value for money in its use of resources; and confirmed that the Council's Annual Governance Statement was not misleading or inconsistent with other information known to them.

RESOLVED - (a) That the Auditors ISA 260 report on the Council's 2018/19 financial statements be noted.

(b) That the IFRS compliant Statement of Accounts for the 2018/19 financial year be approved.

A22 AUDIT SERVICES ANNUAL AUDIT PLAN 2019/20 - PROGRESS REPORT

The Audit and Risk Manager submitted a report (previously circulated) providing Members with a progress report against the 2019/20 Annual Audit Plan, in accordance with Audit Services' role and terms of reference.

The submitted report outlined the progress to date on audit assignment work, consultancy/contingency activity and performance indicators and it was reported that good progress had been made to date.

RESOLVED – That the progress made against the 2019/20 Annual Audit Plan be noted.

A23 AUDIT SERVICES ANNUAL AUDIT PLAN 2018/19 - ANNUAL REPORT

The Audit and Risk Manager submitted a report (previously circulated) to provide Members with the annual report against the 2018/19 Annual Audit Plan in accordance with Audit Services' role and terms of reference.

The submitted report outlined progress to date on audit assignment work, consultancy/contingency activity and performance indicators; and in relation to Audit Services' and highlighted that all agreed work had been completed.

It was reported that the Annual Report should be considered in the context of fulfilling the function to monitor the adequacy and effectiveness of the Council's internal control environment and the Internal Audit service provided.

RESOLVED – That the annual report against the 2018/19 Annual Audit plan be noted.

A24 ANNUAL GOVERNANCE STATEMENT

The Managing Director submitted a report (previously circulated) seeking approval of the Council's draft Annual Governance Statement (also previously circulated), a key corporate document which involved a variety of people charged with delivering governance within the Authority and which was required to be published each year, to accompany the Statement of Accounts, in accordance with the Accounts and Audit Regulations 2015.

It was reported that the Annual Governance Statement outlined the Council's responsibilities; explained the purpose of the governance framework; set out key elements; detailed the review of its effectiveness; and highlighted any significant governance issues; and included a commitment by the Leader of the Council and the Managing Director to ensure the continuous improvement of the system in place.

Members discussed Paragraph 46 of the submitted report in relation to the Local Plan and agreed an amendment to the timetable for the Local Plan to be submitted for inspection.

RESOLVED – That the draft Annual Governance Statement, as appended to the submitted report, be approved with the following amendment to Paragraph 46 of the submitted report as follows :-

'An up to date Plan is essential to meeting the development needs of the Borough and ensuring the Council can shape and are in control of development. The new Local Plan will cover the period 2016 to 2036. The revised timetable is that the Local Plan to be submitted for inspection in 2020 (with adoption likely in 2020). A revised timetable will be considered by Members for approval in due course'.

AUDIT COMMITTEE 20 NOVEMBER 2019

ANNUAL AUDIT LETTER 2018/19

Purpose of the Report

1. To present the Annual Audit Letter for 2018/19

Summary

2. The Annual Audit Letter (**Appendix 1**) provides a high level summary of the results from the 2018/19 audit work undertaken by Ernst and Young LLP (EY), the Council's external auditors, for the benefit of Members and other interested stakeholders.
3. The Letter will be presented at the meeting by a representative from EY.
4. The letter confirms the Council's accounts give a true and fair view for the year ending 31 March 2019 and that the Council have put in place proper arrangements to secure value for money in its use of resources.

Recommendation

5. It is recommended that the Annual Audit Letter be noted.

Reasons

6. The recommendation is supported to enable the Audit Committee to receive the results of external audit work carried out.

**Paul Wildsmith
Managing Director**

Background Papers

Annual Audit Letter 2018/19

Peter Carrick: Extension 5401

S17 Crime and Disorder	There are no specific issues which relate to crime and disorder.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact and Climate Change	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements.
Efficiency	The External Auditors concluded that the Council had put in place proper arrangements to secure value for money in its use of resources.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

Darlington Borough Council

Annual Audit Letter for the year
ended 31 March 2019

August 2019

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Focused on Your Future



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA set out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities and Terms of Appointment. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary



Executive Summary

We are required to issue an Annual Audit Letter to Darlington Borough Council (“the Council”) following completion of our audit procedures for the year ended 31 March 2019.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council’s:	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the financial statements.
Concluding on the Council’s arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council’s Whole of Government Accounts return (WGA)	The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the consolidation pack.

Executive Summary (continued)

As a result of the areas on the previous page, we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit	Our Audit Results Report was presented to the Audit Committee on 31 July 2019.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice	Our certificate was issued on 31 July 2019.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

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Nicola Wright

Associate Partner

For and on behalf of Ernst & Young LLP



02

Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 31 July 2019 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Planning Report that we issued in March 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2018/19 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office, and issued an unqualified audit report on 31 July 2019.

Our detailed findings were reported to the 31 July 2019 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risks

Misstatements due to fraud or error

As identified in auditing standards, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Conclusion

We performed the following testing in relation to this risk:

- ▶ We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ We reviewed accounting estimates for evidence of management bias (as noted below relating to revenue and expenditure recognition); and
- ▶ We evaluated the business rationale for any significant unusual transactions.

We did not identify any transactions during our audit which appeared unusual or outside of the Council's normal course of business.

We did not identify any instances of inappropriate judgements being applied.



Financial Statement Audit (continued)

Significant Risk	Conclusion
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Under auditing standards, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated.</p>	<p>We performed the following testing in relation to this risk:</p> <ul style="list-style-type: none"> ▶ We reviewed and tested revenue and expenditure recognition policies; ▶ We reviewed, discussed with management and tested (where appropriate) any accounting estimates on revenue or expenditure recognition for evidence of bias; ▶ We tested a sample of additions to Property, Plant and Equipment assets to obtain assurance that the spend was capital in nature; ▶ We tested a sample of capital grants and contributions to confirm that terms and conditions had been met and recognition of revenue was appropriate; and ▶ We reviewed a sample of transactions recorded in the ledger and payments made from the bank account post year-end and confirmed that the associated income and expenditure had been recorded in the correct period. <p>Our testing did not identify any material misstatements relating to revenue and expenditure recognition.</p> <p>We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.</p>
<p>Valuation of land and buildings</p> <p>The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>We performed the following testing in relation to this risk:</p> <ul style="list-style-type: none"> ▶ We considered the work performed by the Council's external valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▶ We sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ▶ We considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the CIPFA Code; ▶ We reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated; ▶ We considered changes to useful economic lives as a result of the most recent valuation; and ▶ We tested accounting entries to ensure they had been correctly processed in the financial statements. <p>We did not identify any material misstatements in relation to the valuation of land and buildings.</p>



Financial Statement Audit (continued)

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Other Key Findings	Conclusion
<p>Pension liability valuation</p> <p>The Local Authority Accounting Code of Practice and accounting standards (IAS19) require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. Auditing standards require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We performed the following testing in relation to this risk:</p> <ul style="list-style-type: none"> ▶ We liaised with the auditor for Durham County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council; ▶ We assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of the Consulting Actuaries commissioned by PSAA for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team; ▶ We liaised with the Council and our actuarial team to assess the reasonableness of additional pension liabilities recognised in the accounts this year, arising as a result of the McCloud judgement and Guaranteed Minimum Pension equalization; and ▶ We reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. <p>During the audit period, a material adjustment relating to the McCloud judgement was identified, which has impacted upon all Local Government Pension Scheme Scheduled Bodies. The Council instructed their actuary to revisit the Pension Liability values they previously provided to include the impact of both the McCloud judgement and Guaranteed Minimum Pension as well as updated asset values. The revised Pension Values provided by the actuary saw the Pension Liability increase by £7.2m between the draft and final financial statements.</p>
<p>Implementation of new accounting standards</p> <p>The Local Authority Accounting Code of Practice required the Council to implement IFRS9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) for the first time in 2018/19.</p> <p>The implementation of IFRS 9 changed how financial assets are classified and measured, how the impairment of financial assets is calculated, and the disclosure requirements for financial assets.</p> <p>The impact of IFRS 15 was expected to be limited as large revenue streams like council tax, non domestic rates and government grants are outside the scope of the standard.</p>	<p>We performed the following testing in relation to this risk:</p> <ul style="list-style-type: none"> ▶ We obtained a copy of the impact assessment for IFRS 9 and 15 prepared by management and noted that there was not expected to be a material impact on the financial statements; ▶ We considered the impact of IFRS 9 and 15 as we performed our audit work on the financial statements to satisfy ourselves that there was no further impact of the new standards that had not been recognised or disclosed by management; and ▶ We completed the CIPFA disclosure checklist to satisfy ourselves that all of the relevant disclosures were included in the accounts. <p>We did not identify any material issues with the implementation of the new accounting standards.</p>



Financial Statement Audit (continued)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £5.3m (2017/18: £5.1m), which is 2% of gross expenditure on the provision of services reported in the accounts. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.265m (2017/18: £0.257m).



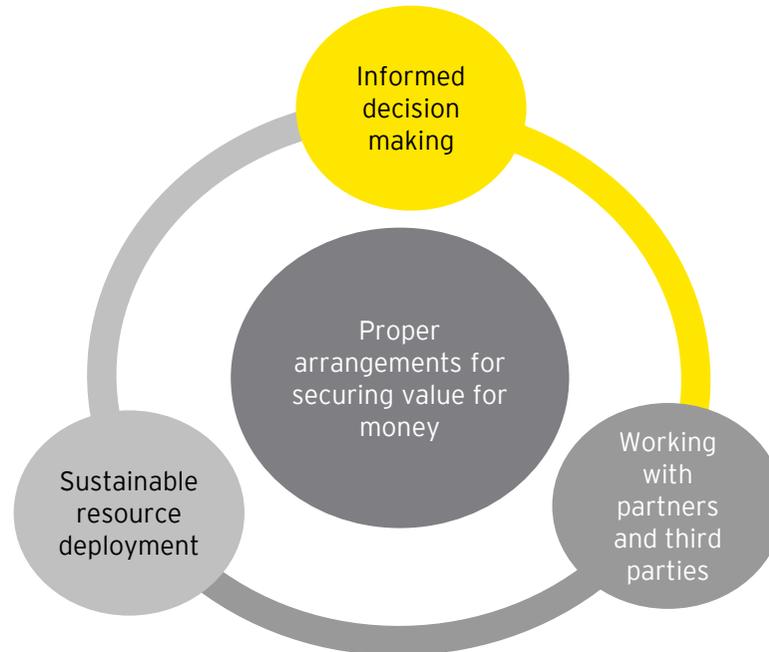
04 Value for Money

Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.



Overall conclusion

We identified one significant risk around the value for money arrangements as part of our Audit Planning Report. The table on the following page presents our findings in response to this risk. We did not identify any further significant risks or weaknesses after the audit planning phase.

Based on the work performed we have no matters to report about your arrangements to secure economy, efficiency and effectiveness in the use of resources and issued an unqualified value for money conclusion.

Value for Money (continued)

What is the significant value for money risk?

Deploying resources in a sustainable manner

The Council continues to operate in a challenging financial environment. The main risks to the Council's finances are reductions in central government funding, increased reliance on locally raised taxes, increased budget pressures and increasing demands for services.

In February 2019, the Council published its Medium Term Financial Plan (MTFP) for 2019/20 to 2022/23.

The plan includes £9.1m of net pressures, which includes delivery of savings totalling £5.1m, over the duration of the plan.

There is therefore significant pressure on the Council's finances over the coming years.

What are our findings?

We reviewed the year end financial performance of the Council and noted that useable reserves have increased in 2018/19. We have also considered the level of reserves held by the Council in the context of the budgeted savings required over the life of the MTFP and have not identified any concerns over the viability of the Council.

We reviewed and challenged some of the key assumptions in the MTFP and did not identify any specific areas of concern.

We tested a sample of documentation to support the Cost Recovery Plans developed by the Council to check that plans were in place for delivering savings. We had no findings to raise in this area.

Overall we were satisfied that the Council has appropriate arrangements in place for deploying financial resources.



05

Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

Other Reporting Issues (continued)

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 31 July 2019. In our professional judgement, the firm is independent and the objectivity of the audit engagement associate partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

Control Themes and Observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



06 Focused on Your Future



Focused on Your Future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard, IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> - new definitions of assets, liabilities, income and expenses; - updates for the inclusion of the recognition process and criteria and new provisions on derecognition; - enhanced guidance on accounting measurement bases; and - enhanced objectives for financial reporting and the qualitative aspects of financial information. <p>The Conceptual Framework is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of Local Authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>



07

Audit Fees

Audit Fees

Our base audit fee for 2018/19 is in line with the scale fee set by Public Sector Audit Appointments and reported in our Audit Results Reports for the Council.

	Final Fee 2017/18	Planned Fee 2018/19	Scale Fee 2018/19
	£	£	£
Audit Fee - Code work	93,264	71,813	71,813
Audit Fee - scale fee variation for group accounting and the impact of additional pension work	-	TBC*	-
Total audit fee - Code work	93,264		71,813
Non-audit work - Housing Benefit Subsidy Claim	8,911	TBC**	N/A
Non-audit work - Other certification work	11,200	TBC**	N/A
Total non-audit services	20,011		N/A

* We anticipate a variation to the scale fee being required in 2018/19 to take into account that this is the first year of group accounts and the significant amendments that were required to the accounts for the McCloud judgement (pension liability). We are in the process of agreeing these fees with management.

** Housing Benefit Subsidy Claim and other certification fees to be agreed when work commences

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**AUDIT COMMITTEE
20 NOVEMBER 2019**

ITEM NO.

**MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT
MONITORING REPORT 2019/20**

SUMMARY REPORT

Purpose of the Report

1. This report seeks approval of the revised Treasury Management Strategy, Prudential Indicators and provides a half-yearly review of the Council's borrowing and investment activities. Audit Committee are requested to forward the revised Strategy and indicators to Cabinet and Council for their approval and note changes to the MTFP with regard to the Treasury Management Budget (Financing Costs).

Summary

2. The mandatory Prudential Code, which governs Council's borrowing, requires Council approval of controls, called Prudential Indicators, relating to capital spending and borrowing. Prudential Indicators are set in three statutory annual reports, a forward looking annual treasury management strategy, a backward looking annual treasury management report and this mid-year update. The mid-year update follows Council's approval in February 2019 of the 2019/20 Prudential Indicators and Treasury Management Strategy.
3. The key objectives of the three annual reports are:
 - (a) to ensure the governance of the large amounts of public money under the Council's Treasury Management activities:
 - (i) Complies with legislation
 - (ii) Meets high standards set out in codes of practice
 - (b) To ensure that borrowing is affordable,
 - (c) To report performance of the key activities of borrowing and investments.
4. The key proposed revisions to Prudential Indicators relate to:
 - (a) The Operational Boundary will reduce to £185.498m and the Authorised Limit to £194.673m to allow for any additional cashflow requirement.
 - (b) The facility to lend to Registered Social Landlords (RSL's) of £100m that was included in previous reports has been removed.
5. Investments now include £30m in property funds which are expected to increase our net return on investments by around £0.700m in future years.

Recommendation

6. It is recommended that :
 - (a) The revised prudential indicators and limits within the report in Tables 1 to 6, 8 and 15 to 18 are examined.
 - (b) The over-spend in the Treasury Management Budget (Financing Costs) of £0.033m shown in Table 12 is noted.
 - (c) That this report is forwarded to Council via Cabinet with comments from this committee, in order for the updated prudential indicators to be approved.

Reasons

7. The recommendations are supported by the following reasons :-
 - (a) In order to comply with the Prudential Code for Capital Finance in Local Authorities;
 - (b) To inform Members of the performance of the Treasury Management function;
 - (c) To comply with the Local Government Act 2003;
 - (d) To enable further improvements to be made in the Council's Treasury Management function.

Paul Wildsmith
Managing Director

Background Papers

- (i) Capital Medium Term Financial Plan 2019/20
- (ii) Accounting records
- (iii) The Prudential Code for Capital Finance in Local Authorities

Peter Carrick: Extension 5401

S17 Crime and Disorder	This report has no implications for S17 Crime and Disorder.
Health and Well Being	This report has no implications for the Council's Health and Well Being agenda.
Carbon Impact	There are no carbon impact implications in this report.
Diversity	There are no specific implications for the Council's diversity agenda.
Wards Affected	All Wards.
Groups Affected	All Groups.
Budget and Policy Framework	This report must be considered by Council.
Key Decision	This is not an executive decision.
Urgent Decision	For the purposes of call in this report is not an urgent decision.
One Darlington: Perfectly Placed	This report has no particular implications for the sustainable Community Strategy.
Efficiency	The report refers to actions taken to reduce costs and manage risks.
Impact on Looked After Children and Care Leavers	This report does not impact on Looked After Children or Care Leavers

MAIN REPORT

Information and Analysis

8. This mid-year review report meets the regulatory framework requirement of treasury management. It also incorporates the needs of the Prudential Code to ensure monitoring of the capital expenditure plans and the Council's prudential indicators (PIs). The Treasury Strategy and the PIs were previously reported to Council on 21 February 2019.
9. This report concentrates on the revised positions for 2019/20. Future year's indicators will be revised when the impact of the MTFP 2020/21 onwards is known.
10. A summary of the revised headline indicators for 2019/20 is presented in **Table 1** below. More detailed explanations of each indicator and any proposed changes are contained in the report. The revised indicators reflect the movement in the Capital MTFP since its approval in February 2019 and the means by which it is financed.

Table 1 Headline Indicators

	2019/20 Original Estimate	2019/20 Revised Estimate
	£m	£m
Capital Expenditure (Tables 2 and 3)	34.149	38.658
Capital Financing Requirement (Table 4)	321.264	216.930
Operational Boundary for External Debt (Table 4)	310.498	185.498
Authorised Limit for External Debt (Table 6)	326.023	194.773
Ratio of Financing Costs to net revenue stream- General Fund (Table 15)	2.74%	2.57%
Ratio of Financing Costs to net revenue stream- Housing Revenue Account (HRA)(Table 15)	17.48%	17.11%

11. The capital expenditure plans and prudential indicators for capital expenditure are set out initially, as these provide the framework for the subsequent treasury management activity. The actual treasury management activity follows the capital framework and the position against the treasury management indicators is shown at the end.
12. The purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Ministry of Housing, Communities and Local Government Investment Guidance which state that Members receive and adequately scrutinise the treasury service.
13. The underlying economic environment remains difficult for Councils and concerns over counterparty risk are still around. This background encourages the Council to continue investing over the shorter term and with high quality counterparties, the downside is that investment returns remain low.

Key Prudential Indicators

14. This part of the report is structured to update:
- (a) The Council's capital expenditure plans
 - (b) How these plans are financed
 - (c) The impact of the changes in the capital expenditure plans on the PI's and the underlying need to borrow
 - (d) Compliance and limits in place for borrowing activity
 - (e) Changes to the Annual Investment Strategy
 - (f) The revised financing costs budget for 2019/20

Capital Expenditure PI

15. **Table 2** shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the budget.

Table 2

Capital Expenditure by Service	2019/20 Original Estimate	2019/20 Revised Estimate
	£m	£m
General Fund	7.615	17.280
HRA	22.534	10.834
Total Estimated Capital Expenditure	30.149	28.114
Loans to Joint Ventures	4.000	10.544
Total	34.149	38.658

16. The changes to the 2019/20 capital expenditure estimates have been notified to Cabinet as part of the Capital Budget monitoring process (Quarterly Project Position Statement Report).
17. The current capital programme, that has not already been financed, now stands at £87.520m. The expenditure against these schemes will fall over a number of years and not just during 2019/20. A reduction of £49.000m has been allowed for schemes where it is known completion will be in 2020/21 onwards, however by the very nature of capital schemes it is likely that others will also slip into future years.

Impact of Capital Expenditure Plans

Changes to the financing of the Capital Programme

18. **Table 3** draws together the main strategy elements of the capital expenditure plans shown above, highlighting the original elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element (Borrowing Need) increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR). Borrowing need has increased for 2019/20 due to slipped

schemes from previous years being completed this financial year. This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 3

Capital Expenditure	2019/20 Original Estimate	2019/20 Revised Estimate
	£m	£m
General Fund	7.615	17.280
HRA	22.534	10.834
Loans to Joint Ventures	4.000	10.544
Total Capital expenditure	34.149	38.658
Financed By:		
Capital Receipts - Housing	0.200	0.200
Capital Receipts –General Fund	1.686	1.705
Capital grants	5.929	14.753
Revenue Contributions – Housing	10.634	10.634
Total Financing	18.449	27.292
Borrowing Need	15.700	11.366

The Capital Financing Requirement (PI), External Debt (PI) and the Operational Boundary

19. **Table 4** shows the Capital Financing Requirement (CFR), which is the underlying external need to borrow for capital purposes. It also shows the expected actual debt position over the period which is called the Operational Boundary. The reduction in Borrowing Need (Table 3) is around £4.3m and currently actual borrowing for the Council is £171.761m, it is proposed to set an actual borrowing figure of £174.000m this will accommodate the additional borrowing need and any debt requirements for cash flow purposes. Other Long term liabilities (the PFI scheme) will be added to give the revised operational boundary for 2019/20.

Prudential Indicator- External Debt/ Operational Boundary**Table 4**

	2019/20 Original Estimate	2019/20 Revised Estimate
	£m	£m
Prudential Indicator- Capital Financing Requirement		
Opening CFR- Post Audit of Accounts	307.348	307.348
Closing CFR	321.264	216.930
CFR General Fund	131.799	125.921
CFR General Fund PFI/Leasing IFRS	11.498	11.498
CFR – Housing	68.967	68.967
CFR – Loans to RSL's	100.000	0.000
CFR – Loans to Joint Ventures	9.000	10.544
Total Closing CFR	321.264	216.930
Net Movement in CFR	13.916	(90.418)
Borrowing	299.000	174.000
Other long Term Liabilities	11.498	11.498
Total Debt 31 March- Operational Boundary	310.498	185.498

Limits to Borrowing Activity

20. The first key control over the treasury activity is a PI to ensure that over the medium term gross borrowing should not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the next two financial years. As shown in table 5 below.

Table 5

	2019/20 Original Estimate £m	2019/20 Revised Estimate £m	2020/21 Revised Estimate £m	2021/22 Original Estimate £m
Gross borrowing	299.000	171.760	176.760	176.760
Plus Other Long Term Liabilities	11.498	11.498	10.358	9.232
Total Gross Borrowing	310.498	183.258	187.118	185.992
CFR* (year-end position)	321.264	216.930	215.729	210.519

* includes on balance sheet PFI schemes and finance leases

21. The Assistant Director Resources reports that no difficulties are envisaged for the current and future years in complying with this PI.
22. A further PI controls the overall level of borrowing, this is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which while not desirable, could be afforded in the short term, but is not sustainable in the longer term. The Authorised Limit for 2019/20 is currently set 5% above the

Operational Boundary to allow for any additional cashflow needs. Whilst it is not expected that borrowing would be at these levels this would allow additional borrowing to take place should market conditions change suddenly and swift action was required. This is a Statutory limit determined under section 3 (1) of the Local Government Act 2003.

23. It is proposed to move the Authorised Limit in **Table 6** in line with the movement in the overall Capital Financing Requirement.

Table 6

Authorised Limit for External Debt	2019/20 Original Indicator £m	2019/20 Revised Indicator £m
Operational Boundary	310.498	185.498
Additional headroom to Capital Financing Requirement	15.525	9.275
Total Authorised Limit for External Debt	326.023	194.773

Interest Rate Forecasts Provided by Link Asset Services

Table 7

	Bank Rate	PWLB rates for borrowing purposes*			
		5 year	10 year	25 year	50 year
	%	%	%	%	%
2019/20					
Dec 2019	0.75	2.30	2.60	3.30	3.20
March 2020	0.75	2.50	2.80	3.40	3.30
2020/21					
June 2020	0.75	2.60	2.90	3.50	3.40
Sept 2020	0.75	2.70	3.00	3.60	3.50
Dec 2020	1.00	2.70	3.00	3.70	3.60
March 2021	1.00	2.80	3.10	3.70	3.60
2021/22					
June 2021	1.00	2.90	3.20	3.80	3.70
Sept 2021	1.00	3.00	3.30	3.90	3.80
Dec 2021	1.00	3.00	3.30	4.00	3.90
March 2022	1.25	3.10	3.40	4.00	3.90

*PWLB rates above are for certainty rates (which are provided for those authorities that have disclosed their borrowing/capital plans to the government. Darlington Borough Council will be able to access these certainty rates which are 0.2% below PWLB's normal borrowing rates.

24. The above forecasts have been based on an assumption that there will be an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

25. It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.
26. The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture. The balance of risks to increases in Bank Rate and shorter term PwLB rates are broadly similar to the downside.
27. The downside risks to current forecasts for UK gilt yields and PwLB rates currently include:
- Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth.
 - Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
 - A resurgence of the Eurozone sovereign debt crisis. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new unlikely alliance of two very different parties will endure.
 - Weak capitalisation of some European banks, particularly Italian banks.
 - German minority government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she has continued as Chancellor, though more recently concerns have arisen over her health.
 - Other minority EU governments. Austria, Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.
-

- Italy, Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- There are concerns around the level of US corporate debt which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- Geopolitical risks, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

28. The upside risks to current forecasts for UK gilts and PWLB rates are:

- Brexit – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- 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 within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Treasury Management Strategy 2019/20 and Annual Investment Strategy Update

29. The Treasury Management Strategy Statement, (TMSS), for 2019/20 was approved by this Council on 21 February 2019.

30. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Debt Activity during 2019/20

31. The expected net borrowing need is set out in table 8

Table 8

	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
CFR (year-end position) from Table 4	321.264	216.930
<u>Less</u> other long term liabilities PFI and finance leases	11.498	11.498
Net adjusted CFR (net year end position)	309.766	205.432
Expected Borrowing	299.000	174.000
(Under)/ Over borrowing	(10.766)	(31.432)
Expected Net movement in CFR	13.916	(90.418)
Expected Net Movement in CFR represented by		
Net financing need for the year from table 3	15.700	11.366
Less MRP General Fund	0.000	0.000
Less MRP Housing	0.629	0.629
Less MRP relating to finance leases including PFI	1.155	1.155
Less RSL's removed	0.000	100.000
Movement in CFR (Net Borrowing Need)	13.916	(90.418)

32. The following new borrowing has been taken to date.

Table 9

Date Taken	Term	Amount £m	Interest Rate	Purpose	Lender
24/05/2019	1 year	2	1.02	Property Funds	Other Local Authority
24/05/2019	1 year	3	1.02	Property Funds	Other Local Authority
27/09/2019	1 year	5	0.83	Property Funds	Other Local Authority
03/10/2019	2 years	5	0.87	General	Other Local Authority
17/10/2019	3 months	5	0.70	General	Other Local Authority

33. The amount borrowed by the Council now stands at £175.661m, this excludes any additional cashflow loans which may be required.

34. There will still be an element of under-borrowing by the Council at the end of March 2020.

Increase in the cost of borrowing by the PWLB

35. On 9 October 2019 the Treasury and PWLB announced an increase in the margin over gilt yields of 100bps on top of the current margin of 80 bps which this authority has paid prior to this date for new borrowing from the PWLB. There was no prior warning that this would happen and it now means that every local authority has to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing. Representations are going to be made to HM Treasury to suggest that areas of capital expenditure that the Government are keen to see move forward e.g. housing, should not be subject to such a large increase in borrowing.
36. Whereas this authority has previously relied on the PWLB as its main source of long-term funding, it now has to fundamentally reconsider alternative cheaper sources of borrowing. At the current time, this is a developmental area as this event has also taken the financial services industry by surprise. We are expecting that various financial institutions will enter the market or make products available to local authorities. Members will be updated as this area evolves.
37. The 100bps increase in PWLB rates from 09/10/2019 only applied to new borrowing rates, not to premature repayment rates.

Debt Rescheduling

38. Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

Annual Investment Strategy 2019/20

Investment Portfolio

39. In accordance with the Code, it is the Council's priority to ensure security of Capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous years as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis together with other risks which could impact on the creditworthiness of banks prompts a low risk strategy. Given this risk environment investment returns are likely to remain low.

Treasury Management Activity from 1 April 2019 to 22 October 2019

40. Current investment position – The Council held £59.499m of investments at 22/10/2019 and this is made up of the following types of investment.

Table 10

Sector	Country	Up to 1 year £m
Banks	UK	9.000
AAA Money Market Funds	Sterling Funds	20.500
Property Funds - CCLA	UK	10.000
Hermes		10.000
Lothbury	UK	9.999
Total		59.499

Short Term Cashflow Investments

41. Cash balances are invested on a daily basis to maximise the benefit of temporary surplus funds. These include investments in Money Market Funds, the Government's Debt Management Office and bank short term notice accounts. A total of 42 investments were made in the period 1 April 2019 to 30 September 2019 totalling c£79m these were for short periods of up to 100 days and earned interest of £108k on an average balance of £28.171m which equated to an annual average interest rate of 0.75%

Investment returns measured against the Service Performance Indicators

42. The target for our investment returns is to better or at least match a number of external comparators, this performance indicator is also known as yield benchmarking. As can be seen from Table 11, the short and long term investment achievements are above market expectations.

Table 11

	Cashflow Investments %
Darlington Borough Council - Actual	0.75
External Comparators	
London Interbank Bid Rate 7 day	0.57
London Interbank Bid Rate 3 months	0.70
London Interbank Bid Rate one year	1.00

Treasury Management Budget

43. There are three main elements within the Treasury Management Budget:-
- (a) Longer term capital investments interest earned – a cash amount of which earns interest and represents the Councils revenue balances, unused capital receipts, reserves and provisions, this will now include Property Funds.

- (b) Cash flow interest earned – since becoming a unitary council in 1997, the authority has consistently had a positive cash flow. Unlike long term capital investments it does not represent any particular sum but it is the consequence of many different influences such as receipt of grants, the relationship between debtors and creditors, cashing of cheques and payments to suppliers.
- (c) Debt serving costs – this is the principal and interest costs on the Council's long term debt to finance the capital programme.

Table 12 - Changes to the Financing Costs Budget 2019/20

	£m	£m
Original Financing Costs Budget 2019/20		(0.702)
Add reduced Repayment of Principal	(0.105)	
Add increased Interest payments paid on debt	(0.077)	
Less reduced interest earned on Investments	0.089	
Less reduced returns on Property Funds and Commercial Ventures	0.126	
Total adjustments		0.033
Revised Treasury Management Budget 2019/20		(0.669)

44. This statement concludes that the Treasury Management budget is forecast to overspend by £0.033m in 2019/20 due to a combination of less than expected returns on Commercial Ventures and investments and reduced interest/principal repayments, these have been reflected in the current MTFP projections.

Risk Benchmarking

- 45. A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance and these are shown in Table 10. Discrete security and liquidity benchmarks are also requirements of member reporting.
- 46. The following reports the current position against the benchmarks originally approved.
- 47. **Security** – The Council's maximum security risk benchmarks for the current portfolio of investments, when compared to historic default tables were set as follows;

0.077% historic risk of default when compared to the whole portfolio

Table 13

Maximum	Benchmark 2019/20	Actual July	Actual September
Year 1	0.077%	0.002%	0.002%

N.B. this excludes Property Funds

- 48. The counterparties that we use are all high rated therefore our actual risk of default based on ratings attached to counterparties is very low.

49. **Liquidity** – In respect of this area the Council set liquidity facilities/ benchmark to maintain
- (i) Bank overdraft - £0.100M
 - (ii) Liquid short term deposits of a least £3.000M available within a weeks notice
 - (iii) Weighted Average Life benchmark is expected to be 0.4 years with a maximum of 1 year
50. The Assistant Director Resources can report that liquidity arrangements have been adequate for the year to date as shown in Table 13

Table 14

	Benchmark 2019/20	Actual June	Actual September
Weighted Average Life	0.4 – 1 year	0.10 years	0.12 years

51. The figures are for the whole portfolio of cash flow investments deposited with Money Market funds on a call basis (i.e. can be drawn on without notice) as well as call accounts that include a certain amount of notice required to recall the funds.

Treasury Management Indicators

52. **Actual and estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream. The reduction in % relates to reduced financing costs for General Fund of £0.140m.

Table 15

	2019/20 Original Indicator	2019/20 Revised Indicator
General Fund	2.74%	2.57%
HRA	17.48%	17.11%

Treasury Management Prudential indicators

53. **Upper Limits on Variable Rate Exposure** – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.
54. **Upper Limits on Fixed Rate Exposure** – Similar to the previous indicator this cover a maximum limit on fixed interest rates
55. Historically for a number of years this Council has used these percentages; together they give flexibility to the treasury management strategy allowing the

Council to take advantage of both fixed and variable rates in its portfolio whilst ensuring that its exposure to variable rates is limited.

Table 16

	2019/20 Original Indicator	2019/20 Revised Indicator
Limits on fixed interest rates	100%	100%
Limits on variable interest rates	40%	40%

56. **Maturity Structures of Borrowing** - These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest for the duration of the instrument) falling due for refinancing. The higher limits for longer periods reflect the fact that longer maturity periods give more stability to the debt portfolio.

Table 17

Maturity Structures of Borrowing

	2019/20 Original indicator	2019/20 Actual to Date	2019/20 Revised Indicator
Under 12 months	25%	17%	30%
12 months to 2 years	40%	6%	40%
2 years to 5 years	60%	12%	60%
5 years to 10 years	80%	9%	80%
10 years and above	100%	57%	100%

57. **Total Principal Funds Invested** – These limits are set having regard to the amount of reserves available for longer term investment and show the limits to be placed on investments with final maturities beyond 1 year. This limit allows the authority to invest for longer periods if they give better rates than shorter periods. It also allows some stability in the interest returned to the Authority.

Table 18

Principal Funds Invested

	2019/20 Original Indicator	2019/20 Revised Indicator
Maximum principal sums invested greater than 1 year	£50m	£30m

Conclusion

58. The prudential indicators have been produced to take account of the Council's borrowing position. The key borrowing indicator (the Operational Boundary) is £185.498m. The Council's return on investments has been good, exceeding both of the targets. Based on the first six months of 2019/20 the Council's borrowing and investments is forecast to overspend by £0.033m on the approved 2019/20 budget.
59. The Council's treasury management activities comply with the required legislation and meet the high standards set out in the relevant codes of practice.

Outcome of Consultation

60. No consultation was undertaken in the production of this report.

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**AUDIT COMMITTEE
20 NOVEMBER 2019**

ETHICAL GOVERNANCE AND MEMBER STANDARDS – UPDATE REPORT

SUMMARY REPORT

Purpose of the Report

1. To update members on issues relevant to member standards and ethical governance.

Summary

2. The report gives members an update of information about issues relevant to member standards since matters were reported to the Committee in June 2019.
3. Also set out in the report are a number of datasets of ethical indicators to assist in monitoring the ethical health of the Council. By reviewing these indicators it is hoped to be able to identify any unusual or significant trends or changes in the volume of data recorded for the relevant period that might provide an alert to any deterioration in the ethical health of the authority.
4. Commentary is included for some data sets to give analysis and explanation for some of the more notable variations. There are no particular issues of concern that have been identified from reviewing the data.

Recommendation

5. Members are asked to note the information presented and to comment as appropriate.

Reason

6. By having information of this nature:
 - (a) Members will be assisted to perform their role.
 - (b) Members will be able to get a better picture of the ethical health of the authority.

**Paul Wildsmith
Managing Director**

Background Papers

None – save as mentioned in the text
Luke Swinhoe: Extension 5490

S17 Crime and Disorder	There are no specific issues which relate to crime and disorder.
Health and Well Being	There is no specific health and wellbeing impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's ethical governance arrangements.
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

MAIN REPORT

Update on matters relevant to Ethical Governance and Member Standards

Committee on Standards in Public Life (CSPL)

The Principles of Public Life:25 years

7. In October this year it was the 25th anniversary of the establishment of the Committee on Standards in Public Life. The CSPL is an advisory non-departmental public body, sponsored by the Cabinet Office. The CSPL advises the Prime Minister, national and local government about ethical standards in public life in England. It monitors, conducts broad inquiries and reports on issues relating to the standards of conduct of all public office holders.
8. The CSPL does not have a role in investigating individual allegations but promotes the seven principles of public life. These are known as the 'Nolan Principles'. All public office holders and employees (ministers, civil servants, NHS staff, the police, councillors and council officers) must uphold the principles of accountability, honesty, integrity, objectivity, selflessness, openness and leadership.
9. To promote the anniversary and to draw attention to the Nolan Principles - the CSPL has made a number of short videos (an overview video and then videos on each of the seven principles). These can be viewed from the following website:

<https://www.youtube.com/channel/UCL04xn0gFY8rx2an6GM112Q>

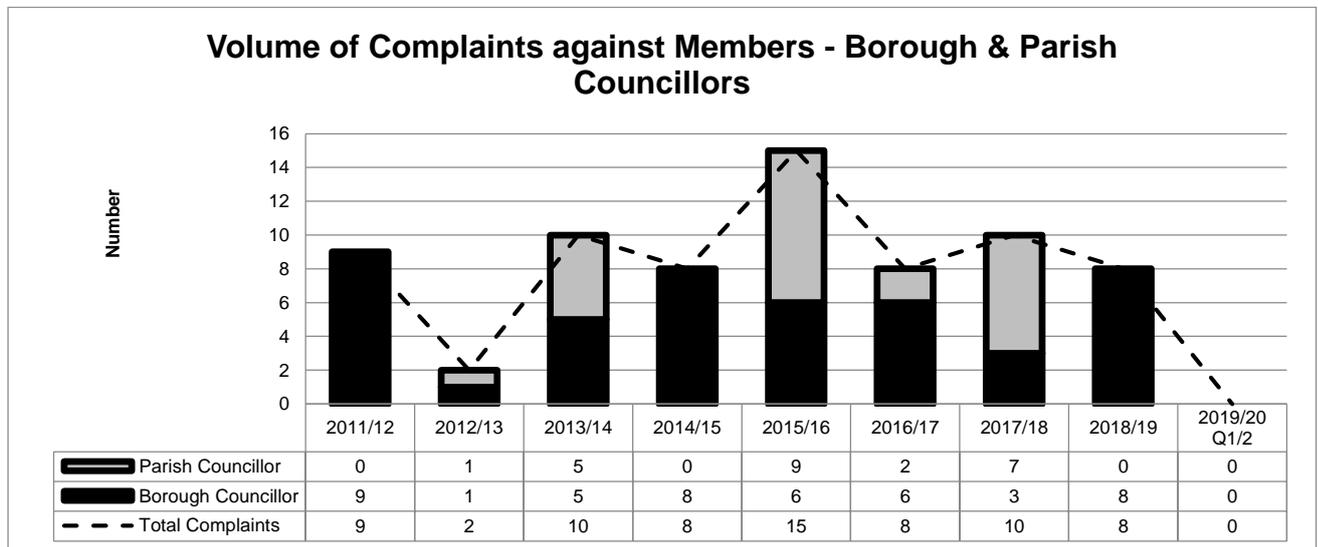
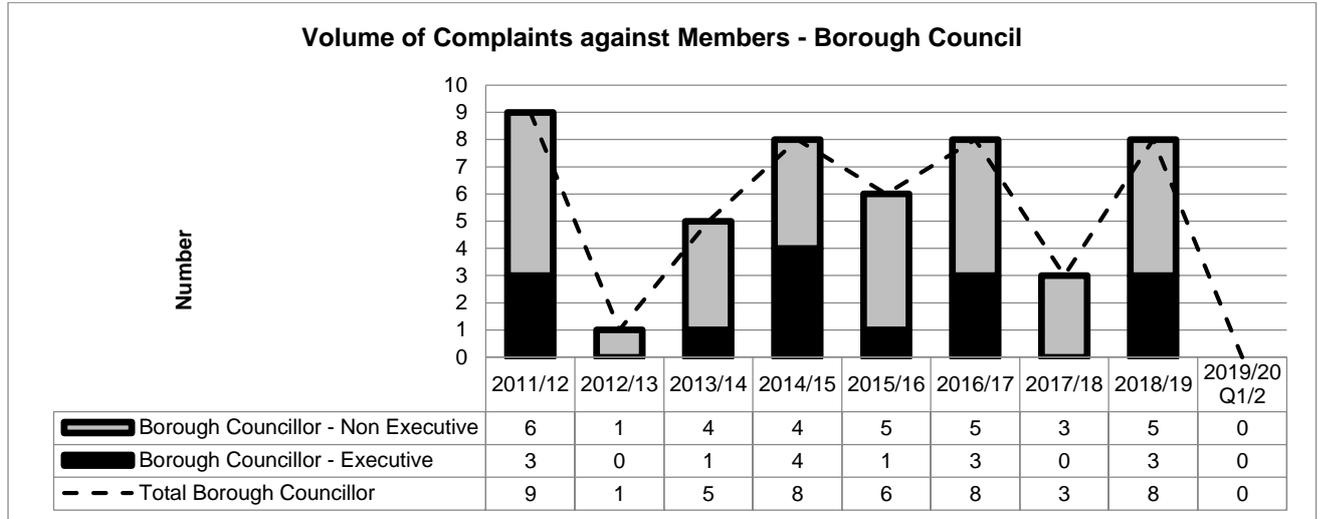
Members Code of Conduct

10. Since the May local government elections, a number of training sessions about the Code of Conduct have been held for members of the Borough Council and also for members of Parish Councils and Parish Clerks.
11. As a result of the May elections the Councils website has been updated with details of the register of interest forms for both Borough Council and Parish Council Members.

Ethical Indicators

12. Set out in **Appendix 1** are a range of data sets that it is hoped will assist in monitoring the ethical health of the Council. By reviewing the indicators, it will be possible to identify any unusual or significant changes in the volume of data recorded for the relevant period that might provide an alert to any deterioration in the ethical health of the authority.
13. Member's observations about this information are invited.

Member Complaints



Comments

The average number of complaints per year from 2010/11 to 2018/19 is 8.22 per year.

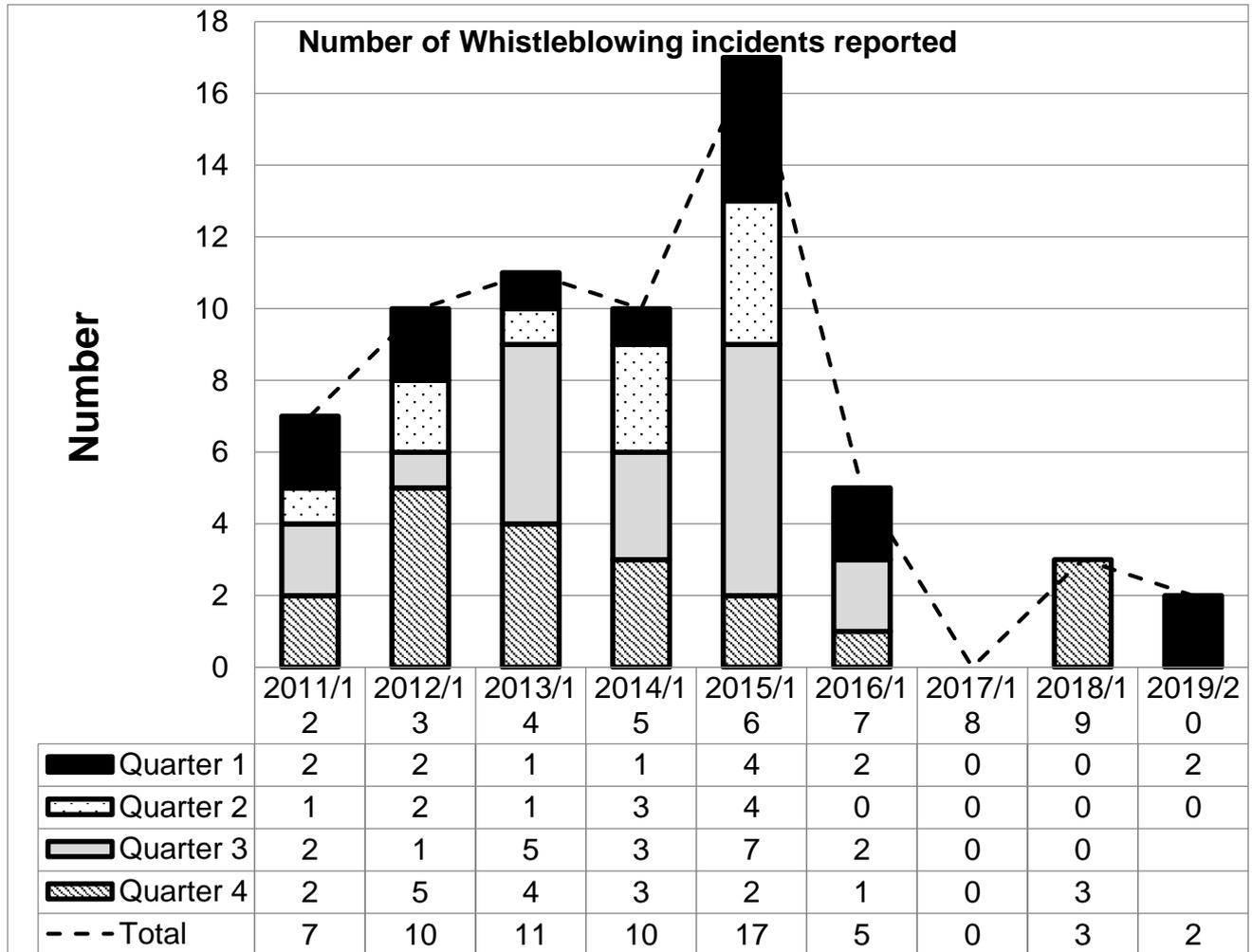
Interpreting the information needs a degree of caution due to low volumes. It is also a factor that in some years spikes in complaints occur due to particular circumstances which account for the rise.

The increase in complaints received for 2015/16, related to one Parish Council alone which accounted for all of the 9 complaints attributed to Parish Councils. This has very significantly impacted on the total complaints received for 2015/16. The number of complaints from 2016/17 on, has been more in line with the overall average.

Over the period 2010/11 to 2018/19 there have been 25 complaints made in respect of Parish Councillors and for the same period 49 complaints relating to Borough Councillors. The fact that there are more complaints in respect of Borough Council members is perhaps

unsurprising given the types of decisions they are involved in making and the more prominent role that they play compared to Parish Councillors.

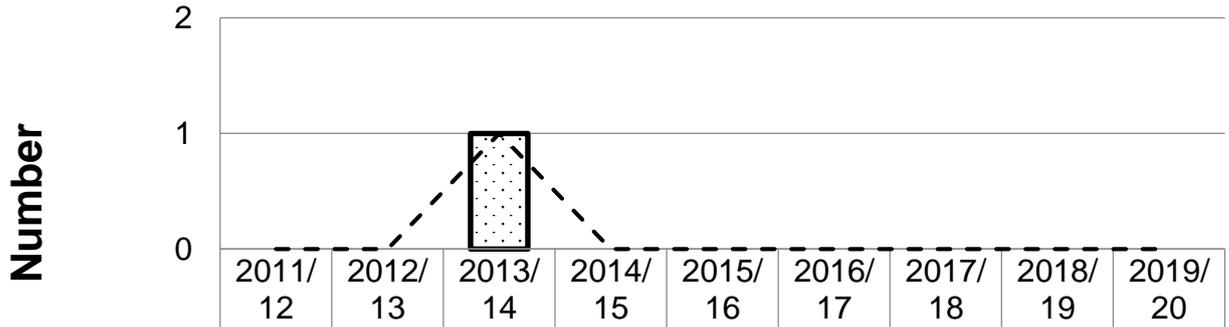
Whistleblowing



Comments

Publicity about the whistleblowing policy took place in the Autumn of 2018. Work was also undertaken to highlight the Council's Anti-Fraud and Corruption Strategy. There has been a slight increase in reported incidents.

Number of challenges to procurements



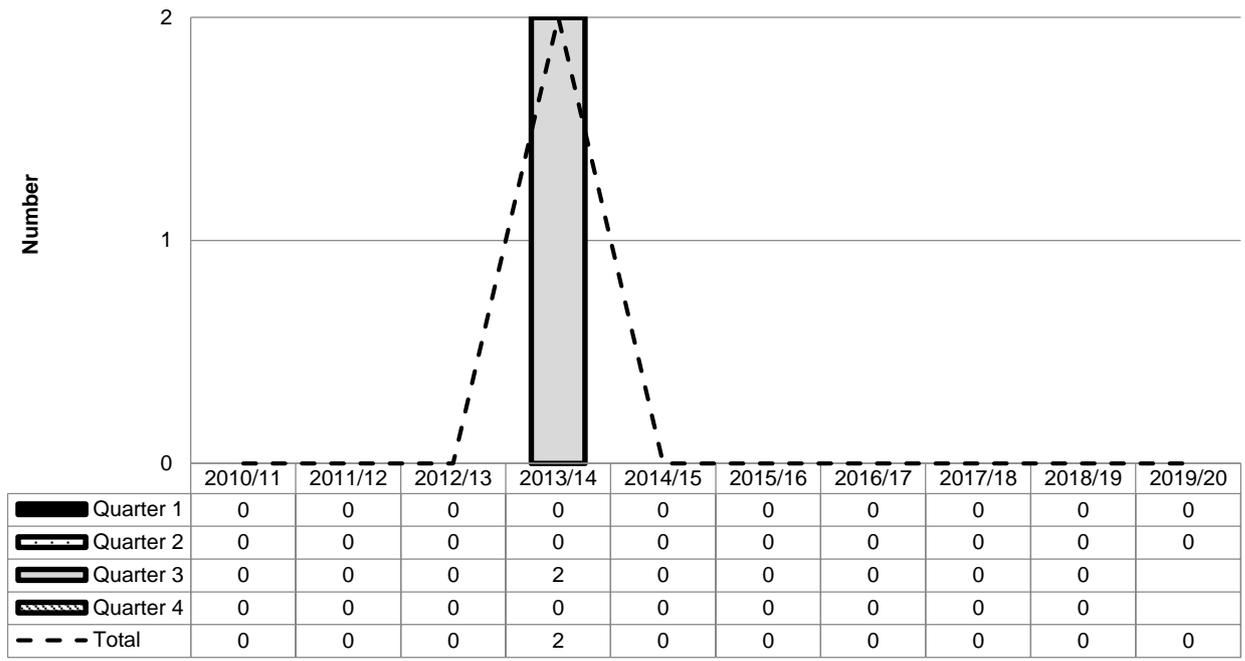
	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20
■ Quarter 1	0	0	0	0	0	0	0	0	0
▤ Quarter 2	0	0	1	0	0	0	0	0	0
▥ Quarter 3	0	0	0	0	0	0	0	0	
▧ Quarter 4	0	0	0	0	0	0	0	0	
- - - Total	0	0	1	0	0	0	0	0	0

Objections to the Council's Accounts

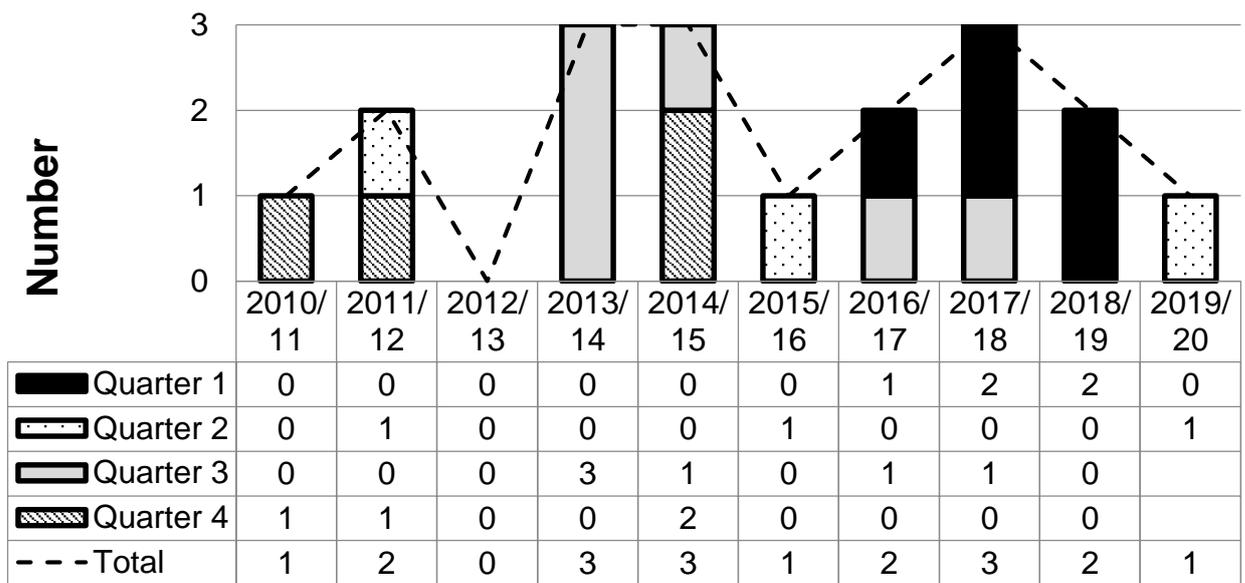


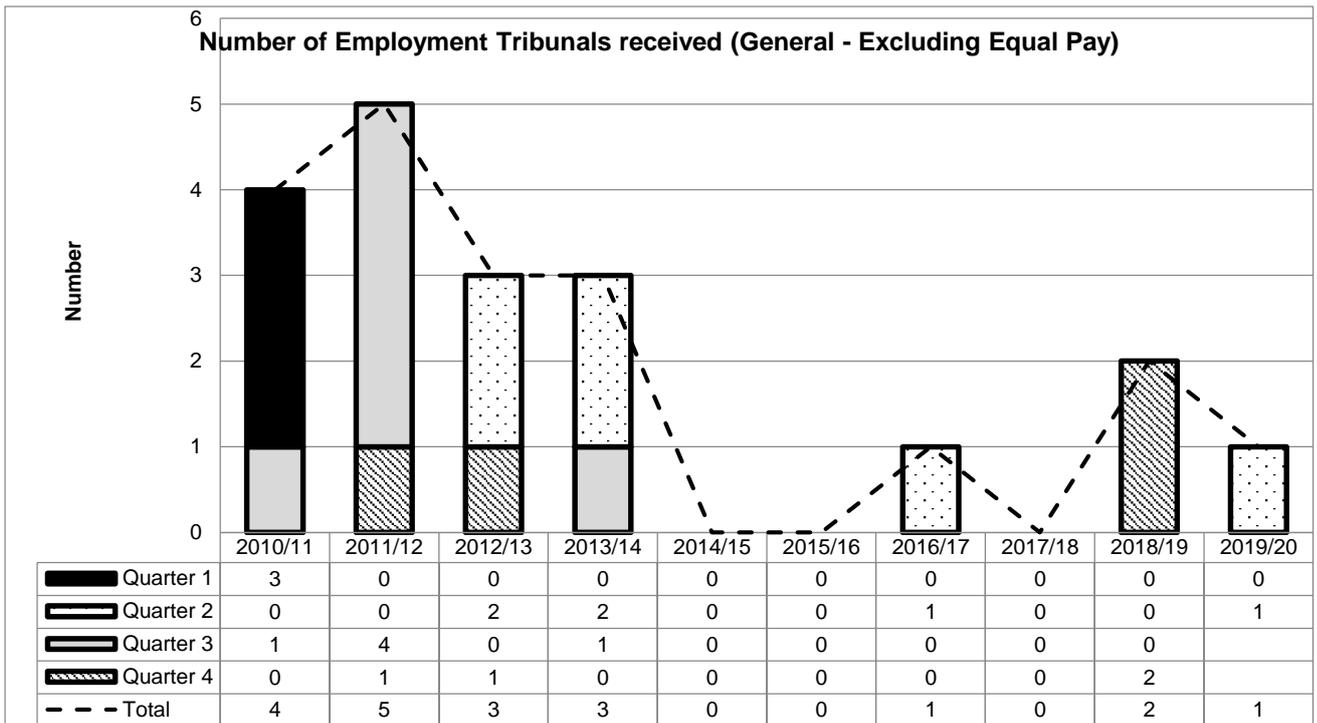
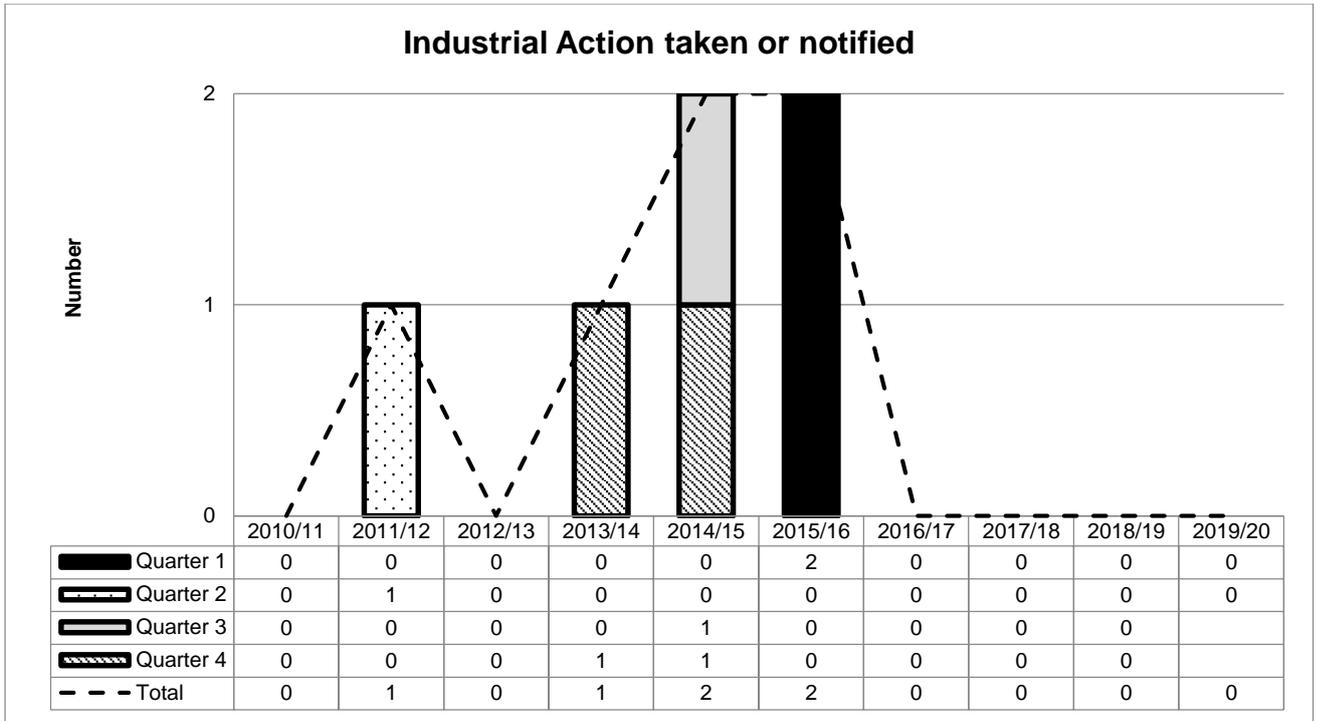
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
■ Quarter 1	0	0	0	0	0	0	0	0	0
▤ Quarter 2	0	0	0	0	0	0	0	0	0
▥ Quarter 3	0	0	0	0	0	0	0	0	
▧ Quarter 4	0	0	0	0	0	0	0	0	
- - - Total	0	0	0	0	0	0	0	0	0

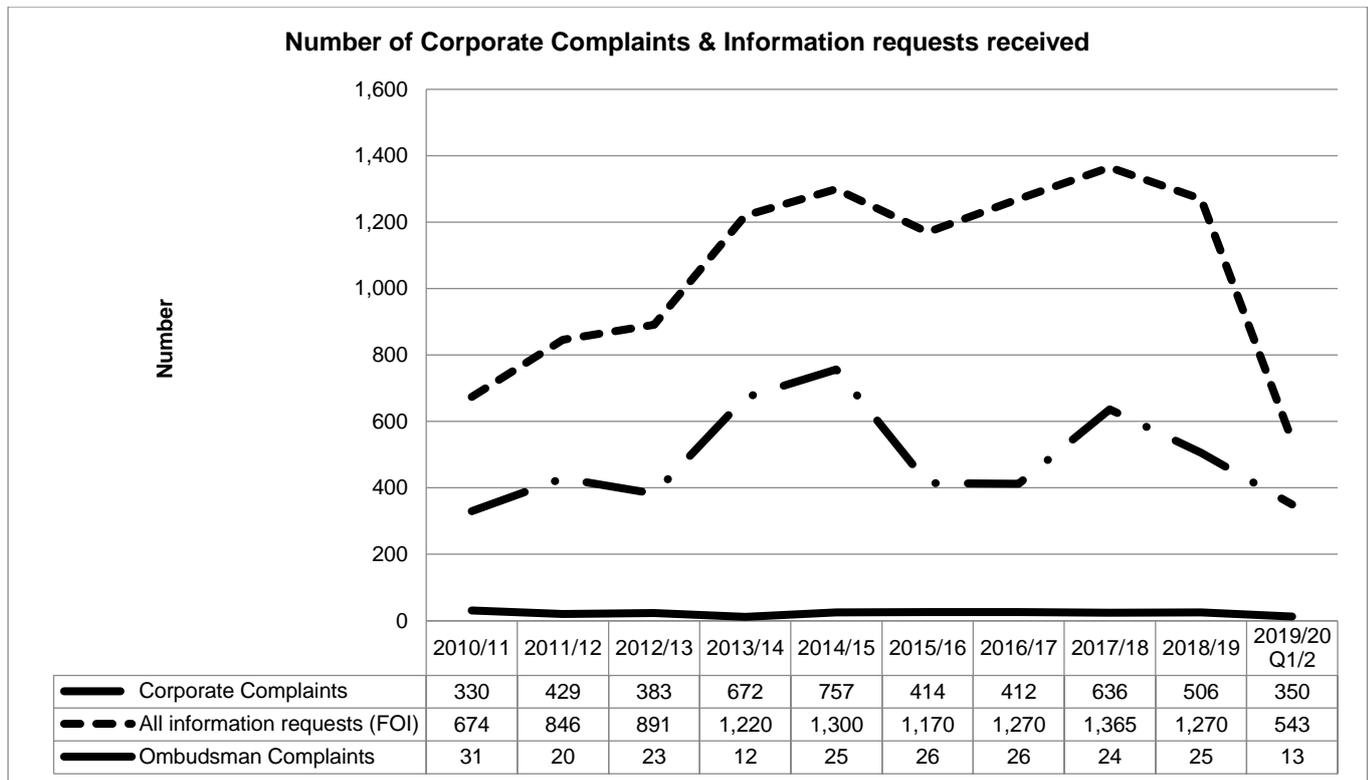
Disciplinary action relating to breaches of the Member / Officer Protocol



Disciplinary action relating to Fraud







Comments

2014/15 - this increase in complaints can be attributed primarily to problems people experienced with their refuse and recycling collections, following the introduction of alternate weekly collections.

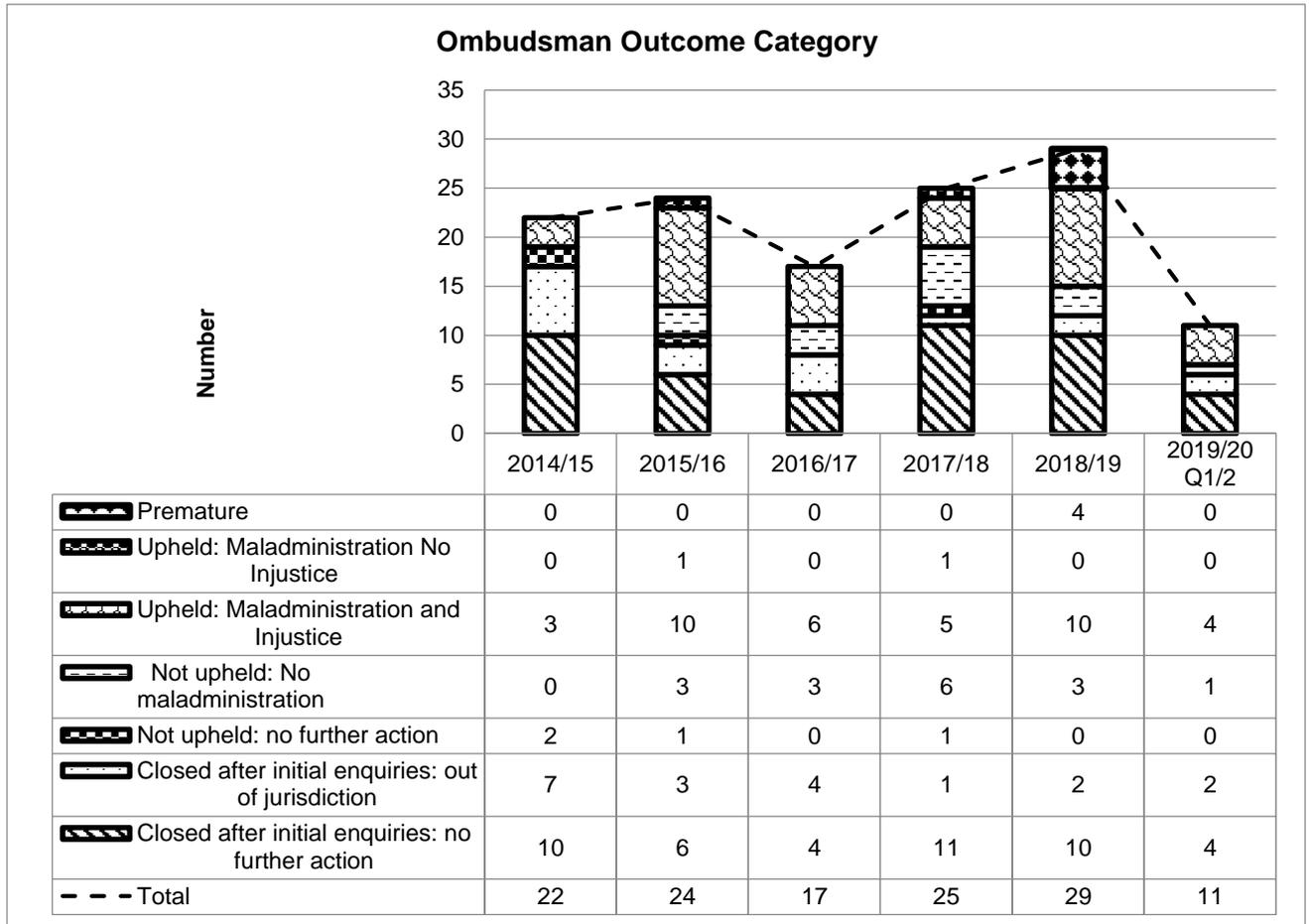
2015/16 – this decrease in complaints can be attributed primarily to the reduction in complaints about problems people initially experienced with their refuse and recycling collections following the introduction of alternate weekly collections.

2016/17 – the number of Corporate Complaints and Ombudsman Complaints received was similar to the number received in 2015/16, while there was an increase of 100 information requests.

2017/18 – One of the major factors in the increase in corporate complaints was the introduction of the Council’s policy to no longer provide a recall service for missed refuse collections. There was also a significant increase in corporate complaints about Customer Services following a restructure, the most common theme was dissatisfaction with telephone waiting times. Additional staffing resource was brought in, as a response to the complaints about telephone waiting times.

2018/19 – The Council received 624 corporate complaints, a slight decrease from 636 the previous year. While there were increases in some areas, those which saw a decrease in complaints included Housing Benefit and Council Tax Support, Customer Services, Development Management and Parking Appeals.

2019/20 – The Council again saw a slight decrease in corporate complaints during quarters 1 and 2 of 2019/2020. The Council received 347 corporate complaints compared to 364 for the same period in 2018/19.



**AUDIT COMMITTEE
20 November 2019**

INFORMATION GOVERNANCE PROGRAMME PROGRESS REPORT

SUMMARY REPORT

Purpose of the Report

1. The Systems and Information Governance Group (SIGG) is required to report six monthly to the Audit Committee on progress and planned developments of the information governance programme.

Summary

2. Information governance is no longer an 'above the line' risk on the Corporate Risk Register. Delivery of our information governance programme has provided the assurance required to reduce our information risks to an acceptable level.
3. Ongoing work includes:
 - (a) Undertaking of a risk assessment in relation to data flows from the European Economic Area (EEA) to the UK in the event of a no deal Brexit.
 - (b) Commencement of the annual review of the Council's Information Asset Register (IAR) and Privacy Notices.
 - (c) The provision of advice by the Data Protection Officer to Council services.
 - (d) Implementation of information classification and handling functionality across emails and Microsoft documents as part of the Microsoft 365 upgrade.
 - (e) Work to achieve our target for the completion of on-line mandatory information governance training courses.
4. The area of highest priority in the information governance programme is:
 - (a) Ensuring appropriate mechanisms are in place to enable the transfer of data between the Council and its data processors in the event of a no deal Brexit.

Recommendation

5. It is recommended that progress on the implementation of the Information Governance Programme be noted.

Reasons

6. To provide the Audit Committee with a status report on the delivery of the Council's Information Governance Programme.

Paul Wildsmith
Managing Director

Lee Downey, Complaints & Information Governance Manager: Extension 5451

Background Papers

S17 Crime and Disorder	There is no specific crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact and Climate Change	There are no specific impacts.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not recommend a change to the Council's budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	For the purposes of the 'call-in' procedure this does not represent an urgent matter.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements.
Efficiency	Implementation of effective information governance systems and procedures has a positive impact on efficiency.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

MAIN REPORT

Background

7. Information governance is no longer an 'above the line' risk on the Corporate Risk Register. Delivery of our information governance programme has provided the assurance required to reduce our information risks to an acceptable level. While that is the case it must be recognised that the data processing activities of the Council continually evolve and documents including Information Asset Registers (IAR), Privacy Notices and Information Sharing Agreements (ISAs) are live documents that require periodic review to ensure they accurately reflect the Council's data processing activities. The processes implemented by the Council include review mechanisms to ensure this takes place.

Current Position

Risk assessment

8. On 4 March 2019 the Ministry of Housing, Communities and Local Government (MHCLG) issued guidance for Local Authorities entitled Accessing data from the European Economic Area (EEA) under no deal Brexit. The guidance stated the UK will transitionally recognise the EEA as though they have been subject to an affirmative adequacy decision by the UK. This means that, for example, personal data can continue to flow freely from the UK to the EEA as if such transfers were made on the basis of an adequacy decision. However, it is not expected that the European Commission will have made an adequacy decision regarding the UK at the point of exit. Therefore, for the purposes of the EU GDPR the UK will be treated as a third country without an adequacy decision. The transfer of personal data from the EEA to the UK will be restricted unless appropriate safeguards are in place, or the transfer benefits from one of the statutory exceptions (known as derogations for specific situations).
9. The guidance went on to say that the Government expects the European Data Protection Board (EDPB) to provide guidance on the transfer of personal data between data processors located in the EEA and organisations in the UK in the event of a no deal Brexit but suggested local authorities take their own legal advice about the likelihood of significant disruption to transfers of personal data from processors in the EEA to controllers in the UK. MHCLG strongly encouraged local authorities to conduct a risk assessment with regard to any personal data for which they are the data controller or data processor.
10. The Council has undertaken a risk assessment and is satisfied that on the balance of probabilities the transfer of personal data from the EEA to the UK and from the US to the UK will continue in the event of a no deal Brexit and there will be minimal disruption to services.

Annual review of the Council's Information Asset Register (IAR) and Privacy Notices

11. Having compiled a record of the Council's processing activities i.e. an IAR in accordance with Article 30 of the General Data Protection Regulations (GDPR) the Council is due to undertake its first annual of the IAR and associated privacy notices.

12. It is the Council's intention to broaden the scope of the IAR to ensure that all of the data the Council holds, not just personal data, is recorded so that it can be properly governed. This process will be essential in realising the efficiencies the Council can achieve by rolling out the functionality available to the Council as part of the Microsoft Office 365 suite.
13. It was agreed by SIGG on 17 October 2019 that the update of the IAR will be used to pilot some of this functionality and that those officers involved in updating the IAR will be given access to Microsoft Teams.

CCTV

14. As set out in the last update to Audit Committee the Data Protection Officer (DPO) updated the advice issued on 20 November 2018 to include the Surveillance Camera Commissioner's advice and convened a meeting to progress the work required to ensure the Council's CCTV systems comply with the relevant legislation.
15. The DPO continues to work directly with those services that use CCTV to ensure compliance.

Information sharing

16. The Multi-Agency Information Sharing Protocol Covering North East and North Yorkshire Area has now been reviewed and was signed off by the DPO and the Caldicott Guardian on 13 November 2018.
17. The Complaints and Information Governance (CIG) Team will continue to work with services and key public-sector partners to review existing and implement new service-level ISAs where required.
18. The Council's secure information sharing system (Egress Secure Workspace) continues to be successfully adopted by key services with a need to share sensitive personal information securely with partners and third parties.

Training and awareness

19. The table in Appendix 2 shows the position at the end of October with regard to the completion of the mandatory on-line information governance courses. Completion rates of over 95% for all of the courses is the Council's target and represents an acceptable level of take up which must be maintained.
20. The current position shows the target has been met by Resources and by Economic Growth & Neighbourhood Services in relation to Information Security and Social Media. Overall the Council met its target in relation to Social Media and work to improve performance is ongoing.

Information Classification and Handling

21. All officers are now required to classify emails and Microsoft Office documents as 'official', 'official-sensitive', 'internal email only' or 'not work related' using the Azure Information protection functionality within the Microsoft Office 365 suite.

22. There have been no incidents of disruption to services and following successful implementation the Council's Information Classification and Handling Guidelines will be updated to reflect these changes.

Conclusion

23. The Council's information governance programme clearly sets out key objectives, roles and responsibilities and priorities. Having implemented the majority of its GDPR compliance programme, which was based on the advice of the ICO, it is reasonable to conclude the Council has significantly reduced the risks associated with information governance.

Outcome of Consultation

24. No formal consultation was undertaken in production of this report.

Appendix 2

29/10/2019	Info Sec 2015		Social Media		DPA 2018		Computer Users - As at 28.10.19
	Comp	%age	Comp	%age	Comp	%age	
Children & Adult's Services	518	93.67	522	94.39	509	92.04	553
Adult Services	127	96.21	128	96.97	124	93.94	132
Children's Services	205	89.13	208	90.43	202	87.83	230
Commissioning, Performance & Transformation	98	98.00	98	98.00	98	98.00	100
Educational Services	83	96.51	83	96.51	80	93.02	86
Public Health	5	100.00	5	100.00	5	100.00	5
Economic Growth & Neighbourhood Services	489	96.07	488	95.87	473	92.93	509
Community Services	161	93.06	161	93.06	157	90.75	173
Economic Growth	49	92.45	48	90.57	48	90.57	53
Housing and Building Services	216	98.63	216	98.63	216	98.63	219
Transport & Capital Projects	63	98.44	63	98.44	52	81.25	64
Resources	159	95.78	159	95.78	159	95.78	166
Darlington Partnership & Creative Darlington	3	100.00	3	100.00	3	100.00	3
Finance, HRM, Systems & Strat, Perf & Comms	84	95.45	84	95.45	84	95.45	88
Law & Governance	72	96.00	72	96.00	72	96.00	75
Total	1166	94.95	1169	95.20	1141	92.92	1228

**AUDIT COMMITTEE
20 NOVEMBER 2019**

ICT STRATEGY – IMPLEMENTATION PROGRESS REPORT

SUMMARY REPORT

Purpose of the Report

1. The Chief Officer's Board (COB) is required to report six monthly to the Audit Committee on progress in relation to the implementation of the ICT Strategy.

Summary

2. The current ICT Strategy focusses on three strategic priorities:
 - ICT Governance and Service Development
 - ICT Strategic Architecture
 - Council Service Development and Transformation
3. This report summarises progress on the main activities within each of these priorities.

Recommendation

4. It is recommended that progress on the implementation of the ICT Strategy be noted.

Reasons

5. The recommendation is supported to provide the Audit Committee with evidence to reflect on progress in delivery of the Council's ICT Strategy.

**Ian Miles
Assistant Director – Xentrall Shared Services**

Background Papers

Darlington ICT Strategy 2017

Ian Miles – Extension 157012

S17 Crime and Disorder	There is no specific crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact and Climate Change	Some of the initiatives contained within ICT Strategy will help contribute towards the carbon reduction commitments.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	Financial implications will be considered in the Medium-Term Financial Plan. This report does not affect the policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	The ICT strategy supports the business of the Council in delivering ODPP
Efficiency	There will be efficiency savings generated as a result of implementing the ICT Strategy. The introduction of new technology is key to providing efficiency savings within Council services.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

MAIN REPORT

6. Progress on the themes of this revised ICT Strategy are described below.

ICT Governance and ICT Service Development

7. The Systems and Information Governance Group (which is the Chief Officers Board of Assistant Directors but chaired by the Managing Director for this purpose) undertakes an ICT Strategy monitoring role as well as overseeing and approving the ICT Work Plan, which covers all service based and corporate ICT projects. As well as this forum, regular updates on major ICT projects are also given to the Managing Director and the Xentrall Executive Board on which he sits.
8. Since the last update to Members, ICT Services have continued to pass PCI DSS quarterly tests. These are the Payment Card Industry Data Security Standards. ICT service continue to be certified to use PSN (the Government's Public Services Network). Since the last update to Members in April, ICT have been externally audited by BSI and successfully re-certified to both ISO 27001:2013 Information Security Management System and ISO 9001:2015 Quality Management System standards.
9. In terms of ICT service development and also related to the two ISO certifications ICT hold, all ICT service improvement activities are identified in the ICT Service Improvement Programme and this is managed and monitored by the ICT Management Team, supported by the ICT Security & Process Excellence Officer. This group reviews the progress and priorities of this extensive and continual programme which is resourced through a combination of business as usual activities and planned projects within ICT. The majority of these activities relate to internal ICT procedures and standards which ultimately deliver improvements to the services ICT users receive.

ICT Strategic Architecture

10. Progress has been made on a number of architecture projects during the last six months, many of which take place behind the scenes. These include:
 - (a) The detailed design of a new wide-area voice and data network has been completed and roll-out to buildings has commenced. Central House and some smaller sites have been completed, with the Depot following shortly.
 - (b) A successful migration of the Council's external telephony from traditional copper circuits to a more resilient, flexible and cost-effective fibre-based Internet system.
 - (c) An upgrade to the wireless network core (Wi-Fi) that runs services across Council buildings.
 - (d) Procurement of both a telephony core management system upgrade and an upgraded video conferencing service.
 - (e) Continued with developments surrounding the migration and deployment of the Microsoft Office 365 suite of systems and associated platform across the Council.

- (f) Commenced a replacement programme for ageing Windows 7 desktops, with new Windows 10 devices being installed.

Council Service Development and Transformation

- 11. The service based Information & Systems Strategies inform the ICT Work Plan and this drives customer projects within the ICT service. As well as the management and monitoring of individual projects, the overall ICT Work Plan is monitored on a monthly cycle at the Systems and Information Governance Group (as described in paragraph 7 above). These ICT projects underpin many of the Council's business change activities.
- 12. As well as the central ICT architecture projects listed above, a further ten service specific projects have been completed since the last progress report to this committee.
- 13. As part of the Microsoft Office 365 roll-out and the features this brings, ICT have also been working with the Council's Information Governance Manager to review existing record management practices and the identification of improved methods through the exploitation of features within Office 365.

Outcome of Consultation

- 14. There has been no formal consultation in the preparation of this report.

**AUDIT COMMITTEE
20 NOVEMBER 2019**

ITEM NO.

AUDIT SERVICES ANNUAL AUDIT PLAN 2019/20 – PROGRESS REPORT

SUMMARY REPORT

Purpose of the Report

1. To provide Members with a progress report against the 2019/20 Annual Audit Plan in accordance with Audit Services' role and terms of reference.

Summary

2. The report outlines progress to date on audit assignment work, consultancy/contingency activity and performance indicators.
3. In relation to Audit Services' performance a detailed report is provided with good progress to date.

Recommendation

4. It is recommended that the progress report against the 2019/20 Annual Audit Plan be noted.

Reasons

5. The recommendation is supported to provide the Audit Committee with evidence to reflect on the Council's governance arrangements.

**Andrew Barber
Audit & Risk Manager**

Background Papers

- (i) Internal Audit Charter
- (ii) Audit Assignment Executive Summaries

Andrew Barber: Extension 156176

S17 Crime and Disorder	Other than any special investigation work there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact and Climate Change	There are no specific impacts.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

MAIN REPORT

Information and Analysis

6. The Annual Audit Plan for 2019/20 was approved by the Audit Committee in June 2019.
7. The report should be considered in the context of fulfilling the function to monitor the adequacy and effectiveness of the Council's internal control environment and the Internal Audit service provided.
8. Appendix 1 provides members with detailed feedback on the performance of the service and the position in relation to completion of the audit plan. Good progress has been made to date.
9. The audit team is currently carrying a vacancy and work is being managed to maximise delivery of the audit plan.

10. In line with good practice, at an appropriate time, Audit Services follow up with Managers progress on implementation of audit recommendations agreed in audit reports.
11. In addition, at the request of clients, consultancy work has been undertaken on specific projects. This time is recorded against Advice & Guidance in the attached appendix. So far to date this has been limited to day to day queries
12. The Shared Service has also responded to routine requests from Groups for advice and guidance on operational matters.

Outcome of Consultation

13. There was no formal consultation undertaken in production of this report.

**INTERNAL AUDIT
AUDIT COMMITTEE UPDATE REPORT
2019/20**

1 AUDIT PROGRESS

1.1 The plan, approved on 19 June 2019, was based on an audit assessment of risk which uses a number of factors to determine the likelihood of issues occurring including an understanding of the full scope of systems in operation, major change, concerns/external interest and results of previous audit work. It then assesses the impact any issues may have on the council's strategic objectives, reputation, financial plans, assets and also the potential impact on individuals and/or the environment.

Audit Progress by Service Group as at 1 November 2019

Department	Planned Audits	Cancelled Audits	Unplanned Audits	Revised Audits	Completed	In Progress	Under Review	Drafts Issued	Not Started	Ready to Start
Children's and Adult Services	17	0	0	17	1	5	0	0	10	1
Economic Growth & Neighbourhood Services	16	0	0	16	2	3	0	3	8	0
Resources	6	0	0	6	1	3	0	0	2	0
Law & Governance	3	0	0	3	0	0	1	0	2	0
Schools	1	0	0	1	0	1	0	0	0	0
Xentrall	11	0	0	11	0	9	0	1	1	0
Corporate	13	0	0	13	0	4	0	0	9	0
Contingency	7	0	0	7	0	6	0	0	1	0
SBC Only	3	0	1	4	2	1	0	1	0	0
TVCA Only	0	0	0	0	0	0	0	0	0	0
Totals	77	0	1	78	6	32	1	5	33	1

Actual Days Compared to Planned Days

1.2 The Audit Plan is constantly revised during the year to take account of changing requirements. Amendments to the Plan agreed on 19 June 2019 can be summarised as follows:

2019/20 Planned Audits Amalgamated/Cancelled/Deferred

None

2019/20 Unplanned Audits Added to the Plan

None for DBC

1.3 Counter Fraud

Since the last update both the website and intranet have been updated with a fully revised fraud page. This provides some useful videos and tips on identifying and preventing fraud as well as links to other resources.

Internal Audit – Audit Committee Update Report 2019/20

The National Fraud Initiative data has been submitted with results received and now being investigated.

The strategy has been updated and is the subject of a separate report.

2 AUDIT OUTPUT

Engagement Opinions

2.1 For each audit carried out Internal Audit provides an overall conclusion as to whether a sound system of internal control is being maintained. Each opinion is either “Full”, “Substantial”, “Moderate”, “Limited”, or “No” assurance depending on the conclusions reached and the evidence to support those conclusions. “Full” and “substantial” assurance normally indicates that the area under review has a reliable system of internal control.

2.2 These individual opinions are summarised below:-

Opinion	Definition	No.	%
Full Assurance	A sound system of internal controls is currently being applied which will ensure the system achieves its objectives. Whilst not essential there may still be scope for these controls to be enhanced in some areas.	3	75
Substantial Assurance	Overall there is a sound system of internal controls that are operating effectively. The system should achieve its objectives but there are areas where internal controls need to be improved.	0	0
Moderate Assurance	A reasonably sound system of internal controls is being applied, however, there are weaknesses which may put some of the system objectives at risk.	1	25
Limited Assurance	There is either a limited system of internal controls being applied, or there are significant weaknesses in the controls in place, which are posing a substantial risk to the achievement of system objectives.	0	0
No Assurance	The system of internal controls in place is failing and system objectives are not being met. Urgent management attention is required.	0	0
N/A	This classification covers audit work within a small part of a system. Providing an opinion on this work would misrepresent the system as a whole.	0	0
Total		4	

2.3 An analysis of the recommendations supporting these opinions by priority is shown below:-

Priority	Definition	No.	%
Critical	Actions that must be taken immediately to manage significant risks that are likely to prevent the Authority achieving one or more of its corporate objectives.	0	0
High	Actions that should be taken as a matter of priority due to the issues identified posing a substantial risk to the achievement of service/system objectives.	0	0
Medium	Required actions to reduce the risk of systems failing to achieve their objectives.	10	59
Low	Beneficial to the improvement of internal controls, which will support the achievement of objectives.	7	41
Total		17	

Details of Audits by Service Group

2019/20

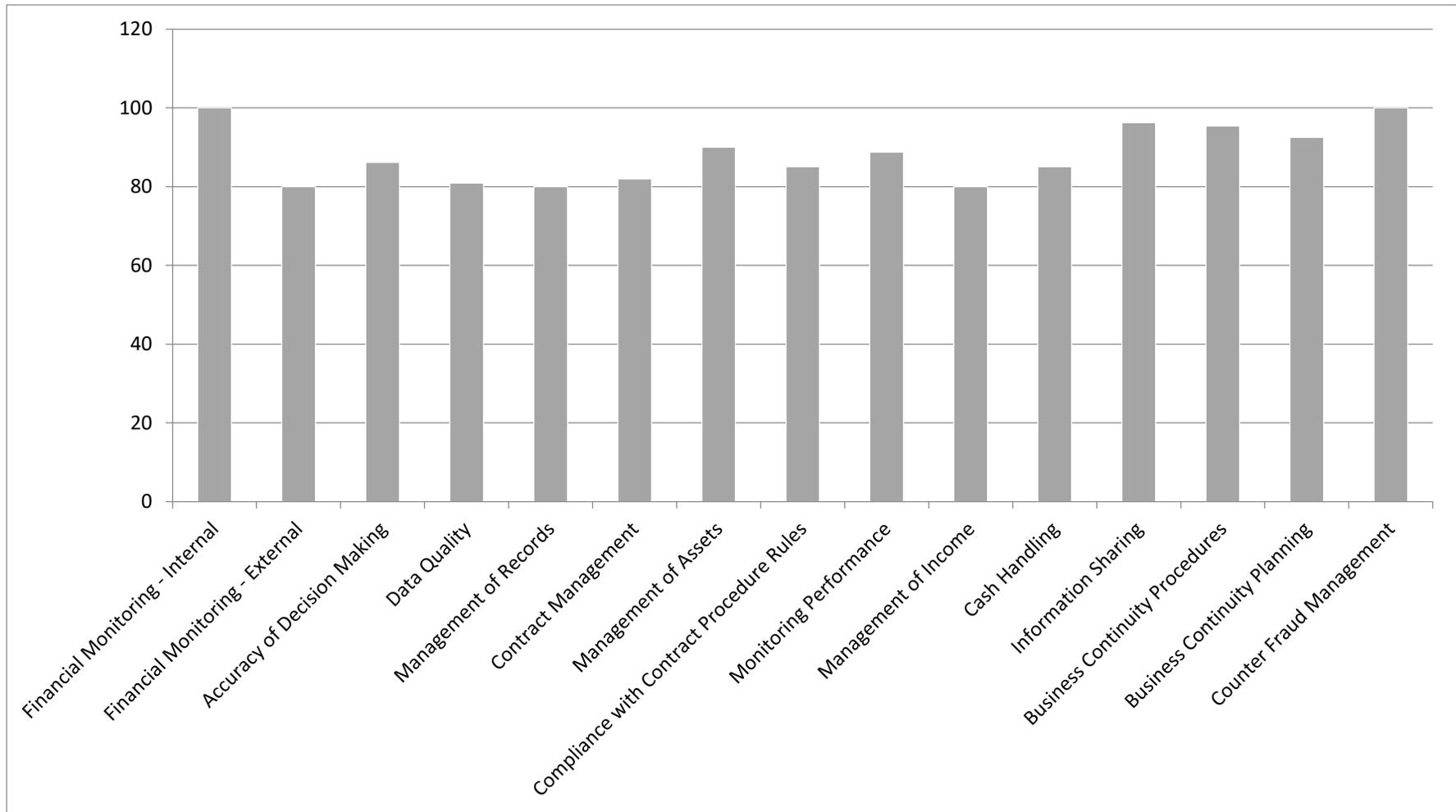
Department	No. of Audits Issued	Opinions						No. of Recs Made	Previous Recommendations			
		Full	Sub	Mod	Lim	None	N/A		Tested	Passed	Failed	N/A
Children's and Adult Services	1	1	0	0	0	0	0	0	0	0	0	0
Economic Growth & Neighbourhood Services	2	1	0	1	0	0	0	12	0	0	0	0
Resources	1	1	0	0	0	0	0	4	0	0	0	0
Law & Governance	0	0	0	0	0	0	0	0	0	0	0	0
Schools	0	0	0	0	0	0	0	0	0	0	0	0
Xentrall	0	0	0	0	0	0	0	0	0	0	0	0
Corporate	0	0	0	0	0	0	0	0	0	0	0	0
Contingency	0	0	0	0	0	0	0	0	0	0	0	0
SBC Only	2	0	0	0	0	0	0	1	0	0	0	0
TVCA Only	0	0	0	0	0	0	0	0	0	0	0	0
Total	6	3	0	1	0	0	0	17	0	0	0	0

2018/19

Department	No. of Audits Issued	Opinions						No. of Recs Made	Previous Recommendations			
		Full	Sub	Mod	Lim	None	N/A		Tested	Passed	Failed	N/A
Children's and Adult Services	8	2	5	0	0	0	0	18	6	1	3	2
Economic Growth & Neighbourhood Services	15	4	10	0	0	0	1	24	43	22	18	1
Resources	3	1	2	0	0	0	0	11	0	0	0	0
Law & Governance	4	2	1	0	0	0	1	5	7	2	1	1
Schools	1	1	0	0	0	0	0	0	0	0	0	0
Xentrall	13	11	1	0	0	0	1	0	0	0	0	0
Corporate	7	2	4	0	0	0	0	9	0	0	0	0
Contingency	7	1	0	0	0	0	1	0	0	0	0	0
SBC Only	2	0	0	0	0	0	0	0	0	0	0	0
TVCA Only	2	0	0	0	0	0	0	0	0	0	0	0
Total	62	24	23	0	0	0	4	67	56	25	22	4

Trend Analysis

2.4 Below is a graph demonstrating the level of compliance across a number of themed tests. All areas are shown as Substantial Assurance (70%).



2.5 Shown below is a list of all the audit engagements undertaken during the year together with their assurance opinion.

2019/20 Audit Plan Current Position as at 1st November 2019

Department	Audit ID	Name	Status	Assurance	Recommendations						Final Var
					L	M	H	C	Bud	Rem	36.3
Corporate	2606	Absence Management	Not Started						10.0	9.5	
Xentrall	2607	Active Directory	In Progress						6.0	3.8	
Economic Growth & Neighbourhood Services	2610	Building Control	In Progress						7.0	6.8	
Xentrall	2611	Cloud Computing	In Progress						5.0	4.3	
Economic Growth & Neighbourhood Services	2612	Asset Register/Asset Management	Not Started						7.0	7.5	
Children's and Adult Services	2615	Child Placement - Adoption	In Progress						7.0	0.0	
Xentrall	2617	Creditors	In Progress						20.0	18.4	
Resources	2620	Client Financial Services	In Progress						12.0	8.8	
Law & Governance	2621	Complaints Review	Not Started						9.0	9.3	
Children's and Adult Services	2622	Community Transport	Not Started						7.0	7.4	
Xentrall	2623	Change Control	In Progress						6.0	5.4	
Economic Growth & Neighbourhood Services	2632	Housing Benefits	Not Started						18.0	17.9	
Xentrall	2634	Debtors	In Progress						16.0	7.5	
Law & Governance	2642	Land Charges	Not Started						6.0	6.4	
Children's and Adult Services	2646	Leaving Care	In Progress						7.0	0.0	
Children's and Adult Services	2648	First Contact	Not Started						3.0	2.5	
Corporate	2653	DBS Procedures	In Progress						6.0	0.7	

Economic Growth & Neighbourhood Services	2654	Development Services	Not Started						9.4	9.8	
Children's and Adult Services	2656	Early Years & Complex Needs	Not Started						8.0	9.1	
Xentrall	2657	Virtualisation	In Progress						6.0	3.9	
Children's and Adult Services	2658	Emergency Duty Team	Not Started						3.0	3.1	
Children's and Adult Services	2659	Looked After Children	In Progress						12.0	11.2	
Corporate	2660	Officer Payments - Mileage	In Progress						8.0	6.0	
Resources	2664	Treasury Management	Complete	Full Assurance	4	0	0	0	7.0		0.4
Resources	2665	VAT	In Progress						6.0	6.1	
Economic Growth & Neighbourhood Services	2666	Taxation	Not Started						12.0	7.7	
Corporate	2667	Recruitment Services	Not Started						6.0	6.1	
Xentrall	2668	Server Operating Systems	In Progress						5.0	5.0	
Resources	2670	Personal Budgets & Direct Payments	In Progress						7.0	2.1	
Xentrall	2672	Firewalls	In Progress						6.0	6.2	
Children's and Adult Services	2673	Referral & Assessment - Adults	Not Started						12.0	9.3	
Xentrall	2674	Payroll & Absence Recording	In Progress						26.0	25.4	
Economic Growth & Neighbourhood Services	2676	Environmental Health	In Progress						6.0	0.5	
Economic Growth & Neighbourhood Services	2677	Enforcement	Not Started						7.0	6.6	
Children's and Adult Services	2679	Youth Offending and Prevention	Not Started						8.0	8.0	
Children's and Adult Services	2680	Early Years, Children's Centres & Childcare	Not Started						8.0	3.4	
Corporate	2700	Declaration of Interests/Gifts & Hospitality	In Progress						20.0	13.2	
Children's and Adult Services	2701	Adult Education	In Progress						15.0	0.0	
Xentrall	2702	Bank Reconciliation	Not Started						12.0	11.3	
< None >	2703	Catering & Cleaning	Draft						20.0	0.0	
Children's and Adult Services	2704	Residential Childrens Homes	Complete	Full Assurance	0	0	0	0	10.0		-
Corporate	2705	Data Protection	Not Started						10.0	10.0	

Children's and Adult Services	2706	Day Centres, Residential & Supported Living	Ready to Start							30.0	24.7	
Economic Growth & Neighbourhood Services	2707	Eastbourne Sports Complex	Complete	Moderate Assurance	2	8	0	0		5.0		- 10.2
Children's and Adult Services	2708	Education Improvement Service	Not Started							15.0	0.0	
Resources	2709	Employee Benefits	Not Started							10.0	0.0	
Resources	2710	Employee Therapy Services	Not Started							7.0	6.7	
Children's and Adult Services	2711	Fuel Poverty Reduction	Not Started							7.0	0.0	
Economic Growth & Neighbourhood Services	2712	Highways Maintenance Management	Not Started							10.0	9.8	
Economic Growth & Neighbourhood Services	2713	Horticultural Services & Allotments	In Progress							15.0	3.7	
Economic Growth & Neighbourhood Services	2714	Housing Building Maintenance	Draft							25.0	1.3	
Economic Growth & Neighbourhood Services	2715	Housing Management	Not Started							20.0	19.2	
Economic Growth & Neighbourhood Services	2716	Housing Rents	Not Started							15.0	14.5	
Economic Growth & Neighbourhood Services	2717	Licensing	Draft							30.0	16.5	
Corporate	2718	Information Management	Not Started							10.0	10.0	
Law & Governance	2719	Mayor's Charity Fund	Under Review							2.0	0.5	
Corporate	2720	Performance Management Framework	Not Started							15.0	15.0	
Corporate	2721	Anti-Fraud Management	In Progress							35.0	34.6	
Corporate	2722	Business Continuity & Emergency Planning	Not Started							10.0	10.0	
Corporate	2723	Council Plans	Not Started							5.0	5.0	
Corporate	2724	Financial Management	Not Started							5.0	5.0	
Economic Growth & Neighbourhood Services	2725	Registration & Bereavement Services	Complete	Full Assurance	1	1	0	0		15.0		6.2
Children's and Adult Services	2726	Safeguarding Children	Not Started							15.0	10.3	
Corporate	2727	Scheme of Delegation	Not Started							15.0	15.0	

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Xentrall	2728	Software Controls	Draft						10.0	0.5	
SBC Only	2729	Stockton Collections	Draft						5.0	0.0	
SBC Only	2730	Tees Valley Music Service	Complete	< None >	0	1	0	0	10.0		-2.2
Economic Growth & Neighbourhood Services	2731	Traffic Management & Road Safety	Draft						15.0	0.0	
Children's and Adult Services	2732	Troubled Families Initiative	In Progress						20.0	8.5	
Contingency	2733	Advice and Guidance	In Progress						50.0	40.9	
Contingency	2734	Audit Liaison and Planning	In Progress						20.0	2.4	
Contingency	2736	Continuous Monitoring	In Progress						200.0	99.3	
Contingency	2737	Grants Contingency 2019	In Progress						30.0	3.0	
SBC Only	2738	SBC Schools - IR35 Self Assessment	In Progress						0.0	0.0	
Schools	2739	DBC Schools - IR35 Self Assessment	In Progress						0.0	0.0	
< None >	2740	Schools - High Clarence Primary	Not Started						0.0	0.0	
SBC Only	2741	Globe Project Assurance	Complete	< None >	0	0	0	0	0.0		15.1
Contingency	2742	Risk Management	In Progress						35.0	22.6	
Contingency	2743	Procurement/Contract Management	Not Started						62.0	58.7	
Contingency	2744	ICT Individual Systems	In Progress						66.0	52.6	
	2745	Schools - Harrogate Hill Primary	Ready to Start						0.0	0.0	
	2746	SBC Library Lost Property	Ready to Start						0.0	0.0	