

Audit Committee Agenda



**9.30 am Wednesday, 28 October 2020
Via Microsoft Teams**

In accordance with Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020, this meeting will be held on a virtual basis. Members of the Public can view a live stream of the meeting at:

<https://www.darlington.gov.uk/livemeetings>

Members of the public wanting to raise issues/make representations at the meeting can do so by emailing Allison.hill@darlington.gov.uk 24 hours before the meeting begins.

1. Introductions/Attendance at Meeting
2. Declarations of Interest
3. To approve the Minutes of this Committee held on 16 September 2020 (Pages 1 - 6)
4. Audit of Accounts 2019/20 –
Verbal update by the Finance Manager
5. Annual Governance Statement –
Verbal update by the Finance Manager
6. ICT Strategy - Implementation Progress –
Report of the Assistant Director – Xentrall Shared Services
(Pages 7 - 12)
7. Annual Grant Certification Report 2018/19 –
Report of the Managing Director
(Pages 13 - 26)
8. Anti-Fraud and Corruption Strategy 2020/21 –
Report of the Audit and Risk Manager
(Pages 27 - 40)
9. Information Governance Programme Progress Report –
Report of the Managing Director
(Pages 41 - 46)

10. Mid Year Prudential Indicators and Treasury Management Monitoring Report 2020/21 –
Report of the Managing Director
(Pages 47 - 62)
11. Audit Services Activity Report –
Report of the Audit and Risk Manager
(Pages 63 - 68)
12. 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
13. Questions



Luke Swinhoe
Assistant Director Law and Governance

Tuesday, 20 October 2020

Town Hall
Darlington.

Membership

Councillors Durham, Baldwin, Crudass, Lee, 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, 16 September 2020

PRESENT – Councillors Durham, Crudass, Lee and Paley

APOLOGIES – Councillors Baldwin and McEwan

ALSO IN ATTENDANCE – Helen Henshaw (Ernst and Young LLP)

OFFICERS IN ATTENDANCE – Peter Carrick (Finance Manager Central/Treasury Management), Luke Swinhoe (Assistant Director Law and Governance), Seth Pearson (Partnership Director), Lee Downey (Complaints and Information Governance Manager), Andrew Barber (Audit and Risk Manager, Stockton Borough Council) and Allison Hill (Democratic Officer)

A1 APPOINTMENT OF CHAIR FOR THE MUNICIPAL YEAR 2020/21

RESOLVED – That Councillor Lee be appointed Chair of this Audit Committee for the Municipal Year 2020/21.

A2 APPOINTMENT OF VICE-CHAIR FOR THE MUNICIPAL YEAR 2020/21

RESOLVED – That Councillor Crudass be appointed Vice-Chair of this Audit Committee for the Municipal Year 2020/21.

A3 DECLARATIONS OF INTEREST

There were no declarations of interested reported at this meeting.

A4 TIME OF FUTURE MEETINGS

RESOLVED – That meetings of this Audit Committee be held at 9.30 a.m. for the remainder of the Municipal Year 2020/21.

A5 MINUTES

Submitted – The Minutes (previously circulated) of the meeting of this Audit Committee held on 29 January 2020.

RESOLVED – That the Minutes of the Audit Committee held on 29 January 2020 be approved as a correct record.

A6 EXTERNAL AUDIT ANNUAL PLAN 2019/20

The Managing Director submitted a report (previously circulated) together with a copy of the 2019/20 External Audit Planning Report (also previously circulated) which had been prepared by the Council's appointed external auditors, Ernst and Young (EY).

Helen Henshaw, a representative of EY attended the meeting to present the report and to answer Members questions thereon.

RESOLVED – That the External Audit Plan for 2019/20 be noted.

A7 ANNUAL REVIEW OF SIGNIFICANT PARTNERSHIPS 2019/20

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.

A8 ANNUAL RISK MANAGEMENT 2019/20

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 Children and Adults Services; Economic Growth and Neighbourhood Services; and a Corporate Risk in relation to Covid-19.

RESOLVED – That the submitted report be noted.

A9 ETHICAL GOVERNANCE AND MEMBER STANDARDS - UPDATE REPORT

The Managing Director submitted a report (previously circulated) updating Members on issues relevant to Member standards and ethical governance.

The submitted report updated Members on the review of the Member Code of Conduct by the Local Government Association (LGA) as recommended by the Committee on Standards in Public Life's (CSPL) report into Local Government Ethical Standards. It was reported that if a new standardised Model Code of Conduct is rolled out which all local authorities are required to adopt legislation will be required, however the approach being taken appeared to be an advisory rather than mandatory approach.

The submitted report also set out a number of datasets of ethical indicators to assist in monitoring the ethical health of the Council and it was reported that, by reviewing these indicators, it was anticipated that any unusual or significant trends or changes in the volume of data recorded for the period concerned would alert the Authority to any deterioration in its ethical health and enable any necessary action to be taken at an early stage.

Members agreed to give further consideration to the draft in its final form to see what changes could be made to our current Code of Conduct.

Member also considered a number of best practice recommendations of the CSPL and in particular the recommendation to have at least two Independent Persons and agreed to appoint a second Independent Person.

RESOLVED – That the report be noted.

A10 MANAGERS' ASSURANCE STATEMENTS 2019/20

The Managing Director submitted a report (previously circulated) advising Members of the outcome of the 2019/20 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 2019/20 returns, had identified an overall positive position.

It was also reported that although no common improvement themes had been highlighted in the 2019/20 returns, all of the identified improvement themes were to be progressed by Assistant Directors during the 2020/21 financial year.

RESOLVED – That the report be noted.

A11 AUDIT SERVICES - AUDIT CHARTER 2020

The Audit and Risk Manager submitted a report (previously circulated) presenting the Audit Services' Audit Charter for 2020/21.

It was reported that a Charter had been developed which outlined how the service would meet the statutory requirements and how the Audit Plan would be developed.

The Internal Audit Charter set out the approach for the period 2020-2021 and gave details of the Purpose of the Internal Audit Service; the scope of Internal Audit work; access to Information; resourcing of the Service; and future Development of the Service.

RESOLVED – That the Internal Audit Charter for 2020/21 be approved.

A12 TREASURY MANAGEMENT ANNUAL AND OUTTURN PRUDENTIAL INDICATORS 2019/20

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 2019/20.

The report also sought Members approval of the Prudential Indicators for 2019/20 in accordance with the Prudential Code.

It was reported that for the financial year 2019/20 presented similar circumstances to 2018/19 with regard to treasury management and the main implications of this for the Council were included in the submitted report.

It was also reported that due to the recent low returns for cash investments new ways to improve investment returns were being continually sought. The cost of borrowing remained low throughout 2019/20 and due to the Covid-19 pandemic the cost of shorter term borrowing was anticipated to remain low for a number of years in the future.

The submitted report summarised the capital expenditure and financing for 2019/20; the Council's underlying borrowing need; the Treasury position as at 31 March 2020; prudential indicators and compliance issues; the economic background for 2019/20; treasury management activity during 2019/20; and performance and risk benchmarking.

It was also reported that the Council's treasury management activity during 2019/20 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 £0.268m had been achieved from the original Medium-Term Financial Plan.

RESOLVED – (a) That the outturn 2019/20 Prudential Indicators within the submitted report and those in Appendix 1 be noted.

(b) That the Treasury Management Annual Report for 2019/20 be noted.

(c) That the submitted report be forwarded to Cabinet and Council in order for the 2019/20 Prudential Indicators to be noted.

A13 AUDIT SERVICES - ACTIVITY REPORT 2020/21

The Audit and Risk Manager submitted a report (previously circulated) to provide Members with a progress report of activity and proposed activity for the next period.

The submitted reported outlined progress to date on audit assignment work, consultancy/contingency activity and detailed feedback on the performance of the service and the position in relation to completion of audit work.

It was highlighted that Covid-19 had brought challenges to the Authority and had been the focus for a number of service areas. Audit advice had been provided as required and time had been spent transitioning to the new ways of working. It was also reported that testing had been undertaken and good progress had been made to date.

RESOLVED – That the activity be noted.

A14 AUDIT SERVICES ANNUAL AUDIT PLAN 2019/20 - ANNUAL REPORT

The Audit and Risk Manager submitted a report (previously circulated) to provide Members with the annual report against the 2019/20 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 shared service was a new service beginning 1 April 2017 and brought together two teams from different organisations as well as a new approach to delivering the audit opinion.

It was also 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.

It was highlighted that there had been number of changes that had been required to the original plan including the significant impact on working arrangements and priorities in response to the COVID-19 outbreak.

RESOLVED – That the annual report against the 2019/20 Annual Audit plan be noted.

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**AUDIT COMMITTEE
28 OCTOBER 2020**

ITEM NO.

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. The report also makes special mention of the ICT activities undertaken in response to the Covid-19 pandemic.

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 last November, 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). 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. Earlier this year ICT were also audited and re-certified to be part of the Government's Public Services Network (PSN). This allows Council services to communicate and transfer information to and from Government departments securely.
9. Since the last update to Members, ICT Services have also achieved full assurance for an internal audit on Software Controls.
10. In terms of ICT service development and related to the two ISO certifications ICT hold, all ICT service improvement activities are identified in the ICT Service Improvement Programme and this continues to be 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

11. Progress has been made on a number of architecture projects during the last year, many of which take place behind the scenes. As well as the Covid-19 pandemic, we must not forget the cyber incident which struck Redcar & Cleveland Council in February. Xentrall ICT provided on-site support at Redcar immediately following the incident and we used what information we had about the attack to confirm our own defence systems and methods. Notable architecture projects have included:
 - (a) The completion of the roll-out of the new wide-area voice and data network, providing increased speeds and lower latency, especially at remote sites.
 - (b) Upgrades to the Council's firewall and perimeter defence infrastructure to maintain high levels of security and protection.

- (c) Upgrading all file servers to Windows 2019, giving improved file access response to users as well as other behind-the-scenes infrastructure management benefits.
- (d) Improvements to the PC remote connectivity and security systems allowing continued secure access to Council systems and improved performance for home workers.
- (e) The procurement and implementation of a new contact centre telephony system.
- (f) A detailed review of the Council's ICT backup methodology.
- (g) Continuing with the developments surrounding the migration and deployment of the Microsoft Office 365 suite of systems and associated platform across the Council.
- (h) Completing the vast majority of a replacement programme for ageing Windows 7 desktops, with new Windows 10 devices being installed.

Council Service Development and Transformation

- 12. 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.
- 13. As well as some of the central ICT architecture projects listed above, a further twenty service specific projects have been completed since the last progress report to this committee.
- 14. 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.

COVID-19 Response

- 15. As reported in the Xentrall Annual Report to Cabinet in July, ICT has been fundamental in the Council's ability to respond to the global pandemic. The ICT service has been very busy since March, mobilising both Darlington and Stockton Councils and this at the same time as protecting and mobilising our own services and staff and running all the vital day-to-day services that the Councils rely on, but often go unseen. Like the rest of Xentrall, ICT did this while self-isolating and social distancing like everyone else.
- 16. A snapshot of these ICT activities and achievements since March is shown below:
 - Rapidly rolling out 140 laptops across Darlington and Stockton and 400 Jabber iPhone installs, taking us to over 2,500 people using softphones instead of physical handsets

- Implementing Microsoft Teams to the whole workforce across both Councils to enable better collaborative and remote working
- Intensive behind the scenes work on the network, firewall, antivirus, remote connectivity infrastructure that supports a massive increase in remote workers, from originally around just over 100/day to now thousands
- Mobilising our Service Desk and associated systems to being home-based and assigning additional staff to help manage the upsurge in calls, with ICT staff pulling together and taking on roles they haven't previously experienced
- Scouring suppliers for ICT kit, including elusive laptops and headsets (the pasta and toilet roll of the ICT world at that time)!
- Delivering innovative IT solutions to enable both Darlington & Stockton Support Hubs to become a reality
- Remaining calm and level-headed throughout and ensuring the wrong decisions weren't taken due to pressures and urgency and a measured approach and the longer-term view prevailed, thus keeping the Council's systems and data safe
- Delivering innovative solutions to keep some large older service applications running and available in a remote working environment
- Providing a stream of user information and self-help guides to support home working
- Keeping all the normal systems and services running that you'd expect on a daily basis from ICT, including upgrades, COVID-19 hot-fixes to systems and year-end processing
- Continuing to deliver Council-wide changes behind the scenes to improve the remote working experience whilst mitigating the risk associated with applying this to a fully remote workforce

17. Since the UK restrictions came into place Xentrall ICT have continued to provide a full range of services and underpin the vital functions of the Councils, whilst in addition, stepping up and providing additional services specifically in response to the pandemic situation. None of what we have achieved collectively could have been done without the dedication of all the teams across Xentrall and the years of investment in our systems, processes and most importantly the professionalism and skill of our staff. So much effort and additional hours have been put in and we continue to do so to ensure everything runs as seamlessly as possible.

18. As well as supporting the original emergency planning aspects of the pandemic, Xentrall ICT are also integral in any recovery planning and activities taking place. ICT Services will continue to also help both Councils retain the benefits that have been gained through mass home working and to help exploit the technology enabled opportunities and innovation that have also arisen across services.

Outcome of Consultation

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

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**AUDIT COMMITTEE
28 OCTOBER 2020**

ITEM NO.....

ANNUAL GRANTS CERTIFICATION REPORT 2018/19

SUMMARY REPORT

Purpose of the Report

1. To present the external audit Annual Grants Certification Report on the results of their grants testing.

Information and Analysis

2. Attached is a copy of the report produced by Ernst & Young (EY) that summarises the high level results of their grants certification testing.
3. A representative from EY will attend the meeting to present the report.
4. From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns was delegated to Public Sector Audit Appointments Limited (PSAA). For 2018/19, these arrangements required only the certification of the housing benefits subsidy claim.
5. The external audit work identified that the claim certified, worth a net total of £33,395,659, required a qualification letter although no amendment was made to the claim. The certified claim form was submitted to the DWP by the deadline of 30 November 2018.
6. The Council also engaged EY to audit 3 claims that fall outside of the PSAA arrangements but never the less require certification. The 3 claims in question were the Teachers' Pension return, the Housing Pooling return & the 2018-19 Homes England Compliance Audit Checklist.
7. EY did not identify any significant issues that required being brought to the attention of Members from either of these claims.

Recommendation

8. It is recommended that the Committee note the contents of the report.

Reason

9. The recommendation is supported as it comprises part of the Council's corporate governance arrangements.

**Paul Wildsmith
Managing Director**

Background Papers

Certification of Claims and Returns Annual Report to those charged with governance 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	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 the report comprising part of the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

Certification of claims and returns annual report 2018/19

Darlington Borough Council
October 2020

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Audit Committee
Darlington Borough Council
Town Hall
Feethams
Darlington
DL1 5QT

October 2020

Dear Audit Committee Members

This report summarises the results of our work on Darlington Borough Council's 2018/19 claims.

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies, and must complete returns providing financial information to government departments. In some cases, these grant-paying bodies and government departments require appropriately qualified reporting accountants to certify the claims and returns submitted to them.

We acted as reporting accountants for the certification of the housing benefits subsidy claim. In certifying this claim, we followed a methodology determined by the Department for Work and Pensions.

In addition to this, we also acted as reporting accountants in relation to the Council's Teachers' Pensions, Housing Pooling returns and 2018-19 Homes England Compliance Audit Checklist.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you at the Audit Committee meeting on 28 October 2020.

Yours faithfully



Helen Henshaw

For and on behalf of Ernst & Young LLP

Contents



This report is made solely to the Audit Committee and management of Darlington Borough Council. Our work has been undertaken so that we might state to the Audit Committee and management of Darlington Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Audit Committee and management of Darlington Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Housing benefits subsidy claim



Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£33,395,659
Amended/Not amended	Not amended
Qualification letter	Yes
Fee - 2017/18	£8,911
Fee - 2018/19	£8,911

Findings from 2017/18

We set out below the findings from the 2017/18 certification work, along with information as to whether these issues were also identified in 2018/19.

1. Import of ESA income (Rent Allowances)

From our testing performed in 2017/18, we identified one case where ESA Income had been imported into the Housing Benefits system twice in error, and therefore caused an overstatement of the claimant's income, and an underpayment of benefit.

Our testing in 2018/19 did not identify any similar errors.

Findings from 2018/19

We set out below the findings from the 2018/19 certification work.

1. Modified Schemes Non-HRA Rent Rebate

We identified that only one claim was included in this cell, However, the claim had been deleted from the Northgate system and was manually input into the claim form. As a result, we were unable to test this claim. We performed the following testing in relation to the modified schemes for HRA Rent Rebates and Rent Allowances:

- We reconciled the modified schemes disclosed in the claim form for both HRA Rent Rebates and Rent Allowances to the Northgate system without exception.
- We tested a sample of modified schemes for both HRA Rent Rebates and Rent Allowances and identified no exceptions.
- We performed a comparison of all modified schemes disclosed in 2017/18 and 2018/19 in order to identify any potential missing claims. From this, we identified five cases which were included in 2017/18 but not 2018/19. We reviewed all cases, obtained and corroborated appropriate explanations from management as to why these cases were not included in 2018/19.

As a result of the testing detailed above, we are satisfied that there are no similar errors included in the claim form and therefore we have treated this as an isolated error.



02 Other assurance work





Other assurance work

During 2018/19, we also acted as reporting accountants in relation to the following returns:

- ▶ Teachers' Pensions return;
- ▶ 2018-19 Homes England Compliance Audit Checklist; and
- ▶ Housing Pooling return.

We have provided separate reports to the Council in relation to the Teachers' Pension return and Housing Pooling return. The Homes England Compliance Audit Checklist is submitted online via the Homes England IMS portal, and no separate report is therefore made to the Council. The fees for this are included in section 3. They are referred to here to ensure Members have a full understanding of the returns on which we provide some form of assurance.

We did not identify any issues from our certification of the Housing Pooling return or Homes England Compliance Checklist that require reporting to members.

However, during our review of the Teachers' Pensions return, we identified one finding, which was reported to Teachers' Pensions:

1. A number of arithmetical differences were identified when we recalculated the employer and teacher contributions values disclosed in the claim form. Employer contributions were overstated by £1.26 and teachers contributions were understated by £37.89. The Council have confirmed that these differences mainly relate to rounding. For Tier 1 Teachers' Contributions, the difference also includes £37.57 relating to a teacher included on the default rate of 9.6% for one month (due to missing the cut-off for banding), when the Tier 1 rate of 7.4% should have been used. We noted no further issues.



03

2018/19 certification fees





2018/19 certification fees

Claim or return	2017/18	2018/19
	Actual fee £	Actual fee £
Housing benefits subsidy claim	8,911	8,911
Teachers' Pension return	3,200	3,200
Housing Pooling return	3,000	3,000
Homes England Compliance Audit Checklist	N/A	4,000



04

Looking forward



Looking forward

2019/20 and beyond

As your appointed auditor for the financial statements audit, we are pleased that in 2019/20 the Council has also appointed us to act as reporting accountant for the following certification claims:

- Housing Benefit Subsidy Claim.
- Teachers' Pension Return.
- Housing Pooling Return.
- Homes England Compliance Audit Checklist.

We welcome this opportunity to continue undertaking this work for the Council, providing a seamless quality service, drawing on our vast array of experienced and knowledgeable public sector professionals, whilst realising the efficiencies that are achieved by undertaking both the audit and grant work.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

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ey.com

AUDIT COMMITTEE 28 OCTOBER 2020

ANTI-FRAUD AND CORRUPTION STRATEGY 2020-2021

SUMMARY REPORT

Purpose of the Report

1. To advise Members of the Anti-Fraud and Corruption arrangements for the period 2020-2021.

Information and Analysis

2. Estimates suggests in excess of £300m is being lost to fraud in local government. With the pressures faced by our services it is imperative that we are able to ensure the funds we have are not being lost to fraudsters.
 3. The Chartered Institute of Public Finance and Accountancy (CIPFA) take the lead on providing advice and guidance to the sector on managing the fraud risk. They also co-ordinate annual surveys of fraudulent activity detected across local government.
 4. A Code of Practice on Managing the Risk of Fraud and Corruption was published by CIPFA in October 2014. The code has 5 distinct strands:
 - Acknowledge Responsibility
 - Identify Risks
 - Develop a Strategy
 - Provide Resources
 - Take Action
 5. The attached strategy has been developed in line with the code of practice with each of the 5 themes addressed. The format of the strategy has been redefined from previous versions to improve the visual appeal of the strategy and make it more effective.
 6. The strategy is endorsed by senior management with a foreword provided by the Assistant Director - Resources as the responsible finance officer and the Chair of the Audit Committee reflecting the importance of tackling fraud within the authority.
 7. At the core of the code is understanding our fraud risk and ensuring we provide adequate resources to address the areas of greatest risk. A risk has been added to the strategic risk register to facilitate this.
 8. Based on the results of local counter fraud activity and the national estimates of where fraud occurs it would appear the resources we have available and where they are deployed are commensurate with the current level of risk exposure. There are a
-

number of emerging risk areas (specifically social care and procurement), work will be undertaken from existing resources to assess the risk posed and whether there is a need for additional controls in those areas.

9. There are a significant number of promotional materials available to support counter fraud efforts. Included in the strategy are a number of actions around raising awareness and ensuring everyone understands the risk of fraud therefore helping to prevent fraud occurring and where it does to ensure it is reported and appropriate action is taken.
10. The audit plan supports the fraud risk assessment process providing advice and guidance where controls need to be improved. Good practice suggests continuous monitoring is an effective process for detecting fraud early. Much of the work within the audit plan is moving towards continuous monitoring not only to improve the efficiency and effectiveness of the audit service but also to support the early detection of fraud reducing its impact.

Anti-Fraud and Corruption Strategy 2019/2020 Update

11. A number of actions were identified in the 2018/2019 strategy and a position statement is provided below:
 - a. Intranet pages were reviewed and updated during the year. The intranet page includes guidance and training materials for staff.
 - b. Fraud risk assessment has been reviewed at regular intervals during the year.
 - c. Progress has been made on the programme of controls auditing.
 - d. Audits have considered management arrangements for the prevention and detection of fraud.
 - e. A number of awareness campaigns were undertaken including press releases and social media posts during international fraud awareness week in November and updates to staff via the weekly briefing throughout the year.
 - f. Publication of relevant fraud information is included within the strategy itself.

Recommendation

12. It is recommended that :-

- a. That the Audit Committee approves the Anti-Fraud and Corruption Strategy (**Appendix A**).

Reason

13. The recommendation is supported as it comprises part of the Council's corporate governance arrangements.

Andrew Barber
Audit and Risk Manager

Background Papers

- (i). CIPFA Code of Practice on Managing the Risk of Fraud and Corruption

Andrew Barber : 01642 526176 Internal : 156176

S17 Crime and Disorder	Other than any special investigation work required there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being 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 the report comprising part of the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

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Anti-Fraud & Corruption Strategy

2020/2021

Foreword

Welcome to Darlington Borough Council’s Anti-Fraud and Corruption Strategy. Fraud and corruption is estimated to cost the public sector £702m a year in the UK with estimates in the region of £302m in local government alone. Nationally, Council Tax & Housing Fraud continue to be areas where significant fraud occurs and Social Services and Procurement fraud have been identified as the areas of greatest risk. Clearly this is an unacceptable waste of taxpayers money and each of us has a role to play in preventing this waste and ensuring those funds are available to deliver services to our residents.

This document will outline some of the good work that is already taking place as well as looking at ways we can improve our systems and processes to prevent future waste. Despite relatively low levels of fraud detected locally we mustn’t rest on our laurels and we will continue our work to tackle Housing Fraud and Council Tax fraud whilst looking to further develop the work we do to tackle fraud in emerging areas such as Social Services and Procurement. With your help and support we can ensure funds go into our vital services rather than lining the pockets of criminals.

Elizabeth Davison - Assistant Director - Resources

As a councillor and chair of the audit committee I see every day the commitment of our staff to ensure services are delivered to the very best of our ability to our residents. It is disheartening that despite all of this effort we could be doing more if funds were not being diverted away from vital services into the hands of criminals. We have in place a robust governance framework to help reduce the risk of fraud but as ever it is you, our staff who have the most vital role to play by being vigilant and conscious of the fact that fraud may be occurring. Together we can ensure funds are used in the right way to continue to deliver the very best services to our residents and I thank you for your continued vigilance in our fight against fraud.

Cllr Gerald G. Lee - Audit Committee Chair

Fraud – this is defined by the Fraud Act 2006 “A person shall be guilty of fraud if he

- dishonestly makes a false representation, or
- dishonestly fails to disclose to another person information which he is under a legal duty to disclose, or
- occupies a position in which he is expected to safeguard or not to act against the financial interests of another person and dishonestly abuses that position

AND

- intends to make a gain for himself or another or to cause loss to another or expose another to a risk of loss"

The Council recognises that as well as causing financial loss, fraud is also detrimental to the provision of services, and damaging to the reputation of, and confidence in, the Council, public bodies in general and reputable businesses.

The Council is clear that it will not tolerate any impropriety by employees, elected Members or third party organisations.

Understanding the Fraud Risk

1	Fraud & Corruption	Failure to detect or prevent fraud and corruption.					
Causes	Implications	Risk Status					
<ul style="list-style-type: none"> Breach in standards, corporate policies or procedures. Poor recruitment standards, or vetting of contractors. Economic recession and individual circumstances create pressures and motivate the crime. Bribery or collusion. Opportunity provided by system weakness and poor internal controls. Erosion of ethics. Employee disaffection. 	<ul style="list-style-type: none"> Financial loss. Negative publicity and adverse impact on reputation. Loss or damage to resources or infrastructure. Data loss or breach. Detrimental impact on service provision and local taxpayers. 	<p>The Council has a responsibility to protect public funds for which we are responsible. Fraud on public funds is unacceptable therefore the Council is committed to minimising the risk of fraud, corruption and misappropriation. Development of an anti-fraud culture is part of improving resilience to fraud, through raising awareness, clearly defined responsibilities, robust reporting mechanisms and a suitability resourced anti-fraud strategy.</p> <p>The national picture suggests that whilst the number of cases per individual authority may be relatively low it is likely there are a number of the other categories where we have not detected any to date. The highest level of fraud across the public sector relates to housing, procurement, adult social care and council tax. Welfare benefit cases are referred to the Single Fraud Investigation Service for investigation. Instances of procurement fraud can be costly. Losses in relation to adult social care can also be financially significant, however the average value in the other areas tends to be relatively low. The Council does tend to focus its efforts in the areas where the highest numbers currently exist so the potential value of frauds not currently being actively pursued will be relatively low.</p>					
		Current Risk		Desired Outcome			
		Impact	Likelihood	Score	Impact	Likelihood	Score
		3	3	9	2	2	4

Detection

- The Council will use all legal and cost effective means to detect fraud, corruption and bribery including working with other organisations in national data matching schemes e.g. the National Fraud Initiative, Housing Benefit Matching Service, HMRC Taxes Management Act Returns. This may require the lawful sharing of information.
- Risk based Internal Audit Plan that ensures areas with a high risk of fraud are reviewed at least annually.
- Elected Members, staff and external stakeholders are expected to report suspected fraud, corruption or bribery promptly.

Prevention

- The establishment of adequate internal control systems to prevent fraud is the responsibility of Management.
- The Chief Executive, Directors and Assistant Directors are responsible for assessing the effectiveness of internal control systems in relation to fraud, corruption and bribery.
- Internal Audit coverage is sufficient to provide annual assurance to the Council's Audit Committee and supports managers by assessing controls in relation to the prevention of fraud.
- Awareness raising with staff around the importance of maintaining adequate control systems.

How we tackle Fraud

Respond

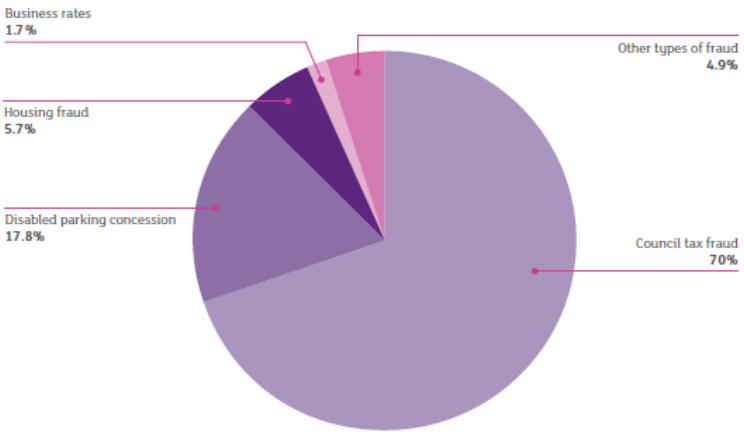
- All instances of suspected fraud must be notified to Internal Audit service to enable the completion of annual returns and to form evidence to support the Annual Governance Statement.
- Investigation will be conducted by the most appropriate section as detailed below:
 - Fraud involving employees will be investigated in accordance with the Council's Disciplinary Procedures by a nominated Investigation Manager with support from the Internal Audit Service.
 - Allegations of improper conduct made against members will be managed by the Monitoring Officer.
 - Other fraud committed against the council will be considered on a case by case basis to determine the most appropriate section to undertake the investigation.
- The Council will adhere to the provisions of the Regulation of Investigatory Powers Act (RIPA) and Money Laundering Legislation.
- Any decision to involve the Police in any investigation of fraud will be taken by the Section 151 Officer in consultation with the Chief Executive and the Monitoring Officer.
- The outcome of the investigation of fraud against the council will be reported appropriately to ensure systems and procedures are amended and to act as a deterrent.
- The Council recognises the need to ensure that its investigation process is not misused. Any abuse such as the raising of malicious allegations by officer/members will be dealt with as a disciplinary matter.
- Sanctions - Including recovery of proceeds (POCA, Civil Law, Pensions)

Policy Framework

- Codes of Conduct for Members and Employees;
- Protocol for members on Gifts and Hospitality;
- Confidential Reporting ("Whistleblowing") Policy and Complaints Procedures;
- Contracts Procedure Rules;
- Standing Orders and Financial Procedural Rules;
- ICT Security Policies;
- Robust internal control systems, processes and reliable record keeping;
- Effective Internal Audit;
- Effective Recruitment procedures;
- Disciplinary Policy and Procedures;
- The Regulation of Investigatory Powers (RIPA) Procedure;
- Induction and Training;
- Fraud Response Plan.

Nationally

Detected fraud by estimated volume



Business Rate fraud has shown the largest growth in the past year, with an estimated £10.4m investigated compared with £4.3m in 2017*

Procurement, adult social care and council tax single person discount are perceived as the three greatest fraud risk areas*

Locally

Actual Detected (£,000s)



Investigative Resources Available (2017/2018)

Type	Total FTE	Qualified FTE	Cost of Investigations	No of Investigations
Council Tax, Benefits & Business Rates	0	0	£0	0
Other**	0.3	0	£0	0

* - Northgate exercise not run in 2020
 ** - Internal Audit set aside a number of days per year to undertake fraud related work. As no investigations were undertaken during the year there has been no cost as resources were deployed elsewhere.

Types of fraud	Fraud cases	% of the total	Value	% of the total value	Average
Council tax	57,894	70.0%	£26.3m	8.72%	£455
Disabled parking concession	14,714	17.8%	£7.3m	2.43%	£499
Housing	4,722	5.7%	£215.7m	71.43%	£45,677
Business rates	1,373	1.7%	£10.4m	3.45%	£7,580
Other fraud	1,165	1.4%	£10.9m	3.61%	£9,355
Adult social care	737	0.9%	£6.7m	2.23%	£9,124
No recourse to public funds	378	0.5%	£4.3m	1.43%	£11,445
Schools frauds (excl. transport)	285	0.3%	£0.7m	0.24%	£2,537
Insurance claims	281	0.3%	£3.5m	1.15%	£12,317
Mandate fraud	257	0.3%	£6.6m	2.18%	£25,618
Payroll	167	0.2%	£1.0m	0.33%	£6,030
Pensions	164	0.2%	£0.6m	0.19%	£3,492
Procurement	142	0.2%	£5.2m	1.71%	£36,422
Welfare assistance	109	0.1%	£0.0m	0.01%	£337
Debt	91	0.1%	£0.4m	0.12%	£3,948
Children social care	59	0.1%	£0.9m	0.31%	£15,800
Economic and voluntary sector support	57	0.1%	£0.8m	0.26%	£13,467
Recruitment	52	0.1%	£0.5m	0.16%	£9,510
Expenses	34	0.0%	£0.2m	0.01%	£867
School transport	30	0.0%	£0.1m	0.04%	£3,857
Manipulation of data	23	0.0%	N/A	N/A	N/A
Investments	2	0.0%	£0.0m	-	-

The highest number of investigations related to council tax fraud (70%) with a value of £26.3m*

* - Source: CIPFA Fraud and Corruption Tracker 2018

Required Actions	Owner and Target Date
<p>Anti-Fraud Strategy Develop an effective counter fraud strategy setting out our approach to managing the risk of fraud and defining responsibilities for action.</p> <ul style="list-style-type: none"> • Anti-Fraud Strategy to be updated and presented to Audit Committee for approval. • Progress against the Anti-Fraud Strategy and Action Plan to be reviewed quarterly as informed by the risk assessment process. • Review and update as necessary the Internet and Intranet presence for the updated Anti-Fraud Strategy, linked policies and fraud reporting mechanisms. 	<p>October 2020 - Audit & Risk Manager On-going - Audit & Risk Manager</p> <p>On-going - Audit & Risk Manager</p>
<p>Fraud Risk Assessment Periodic fraud risk assessment undertaken to understand the scale of corporate fraud risk and the potential implications to the organisation.</p> <ul style="list-style-type: none"> • Fraud and Corruption risk included in the Strategic Risk Register. • Quarterly monitoring and update of identified controls, actions and current status. • Assess the extent to which Senior Management identify and monitor fraud risks and increase senior management ownership as necessary. • Reporting fraud risk to Members in line with the Risk Management policy. 	<p>On-going - Audit & Risk Manager On-going - Audit & Risk Manager On-going - Audit & Risk Manager</p> <p>On-going - Audit & Risk Manager</p>
<p>Data Matching Detection of potential fraud through the use of third party data matching.</p> <ul style="list-style-type: none"> • Submission of files for NFI Exercise • Participation in NFI data matching exercises and review of potential matches in high risk areas. • Increase resources available to review high priority matches identified. 	<p>October 2020 - Audit & Risk Manager On-going - Audit & Risk Manager On-going - Audit & Risk Manager</p>
<p>Continuous Audits and the Use of Data Analytics Employ data analytic tools for the purpose of preventing and detecting fraud.</p> <ul style="list-style-type: none"> • Expand the use of IDEA and the programme of continuous auditing. • Increased sharing and matching of internal and/or cross boundary data to develop local counter fraud exercises. 	<p>On-going - Audit & Risk Manager On-going - Audit & Risk Manager</p>
<p>Audit Work Internal Audit assists management in determining whether effective internal controls are in place to manage the risk of fraud.</p> <ul style="list-style-type: none"> • Results of the Fraud and Corruption risk assessment to inform the work of Internal Audit, including systems audit work, proactive fraud and corruption checks (compliance) and fraud awareness activities. • More probing and directed audits to be conducted in key areas of fraud risk. • Fraud Audits to consider management controls over fraud. • Consider fraud as part of every audit. • Issue annual audit opinion on the internal controls related to fraud. 	<p>On-going - Audit & Risk Manager</p> <p>On-going - Audit & Risk Manager On-going - Audit & Risk Manager On-going - Audit & Risk Manager June 2020 - Audit & Risk Manager</p>

Required Actions	Owner and Target Date
<p>Awareness Campaigns Employee and Member training and awareness sessions and campaigns to provide information relating to what constitutes fraud and the means to report suspected fraud.</p> <ul style="list-style-type: none"> • Continue to develop use of Social Media to promote fraud awareness. • Undertake specific fraud awareness training for priority service areas. • Use of briefings, to publish awareness campaigns, particularly during national fraud awareness weeks. 	<p>On-going - Audit & Risk Manager On-going - Audit & Risk Manager On-going - Audit & Risk Manager</p>
<p>Publication of Fraud Information Create transparency through the annual publication of public fraud data.</p> <ul style="list-style-type: none"> • Develop a register for recording fraud information. • In line with requirements of the Local Government Transparency Code 2015 the following should be reported on an annual basis: <ul style="list-style-type: none"> • Number of occasions the authority has used powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers. • Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud. • Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists • Total amount spent by the authority on the investigation and prosecution of fraud. • Total number of fraud cases investigated. 	<p>October 2020 - Audit & Risk Manager October 2020 - Audit & Risk Manager</p>

Key Contacts

Internal Audit

Stockton on Tees Borough Council

16 Church Road (Room 135)

Stockton on Tees

TS18 1TX

01642 526176

internalaudit@darlington.gov.uk

Role:

Investigate employee fraud.

Investigate fraud in schools.

Collate statistics.

Maintain the Anti-Fraud & Corruption Strategy.

Revenue Services

Town Hall

Feethams

Darlington

County Durham

DL1 5QT

0800 854 440

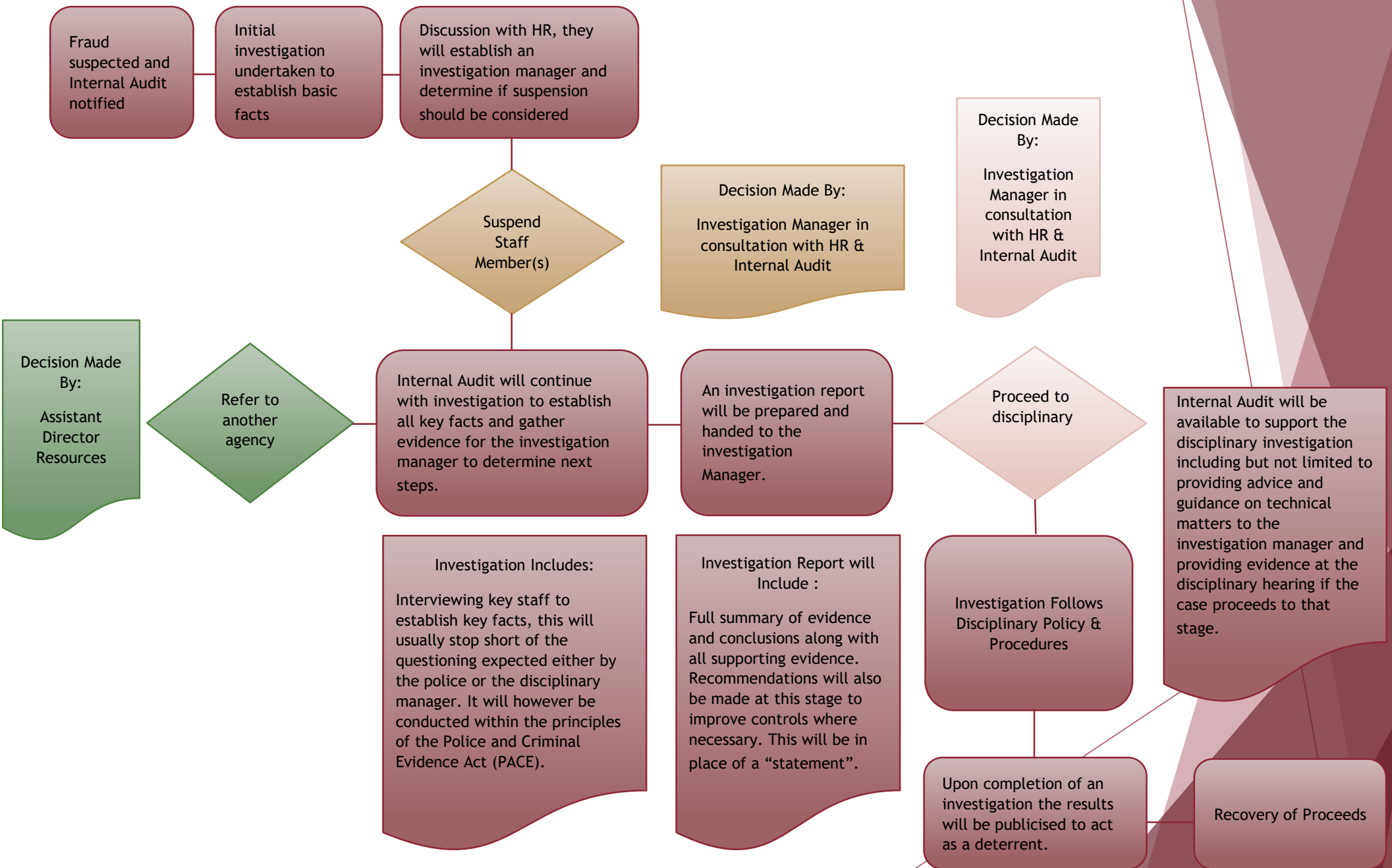
HBEnquiries@darlington.gov.uk

Role:

Investigate Council Tax Support Fraud.

Liaise with Department for Work and Pensions.

Appendix A - Fraud Response Flowchart (Employee Fraud)



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AUDIT COMMITTEE
28 October 2020

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. The ongoing delivery of our information governance programme continues to provide the assurance required to reduce our information risks to an acceptable level.
3. Ongoing work includes:
 - (a) Preparing for data protection after the EU Exit transition period ends.
 - (b) Review of the Council's Information Asset Register (IAR) and Privacy Notices.
 - (c) Provision of advice to ensure the Council's CCTV is compliant with the General Data Protection Regulations/Data Protection Act 2018 and the Protection of Freedoms Act 2012.
 - (d) 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) Preparing for data protection after the EU Exit transition period ends.

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	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 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.

MAIN REPORT

Background

7. 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 must be kept under review. The processes implemented by the Council include review mechanisms to ensure this takes place.

Current Position

Preparing for data protection after the EU Exit transition period ends

8. On 15 October 2020 SIGG approved an action plan developed in response to the Government's guidance: Preparing for data protection after the EU Exit transition period ends: Guidance for Local Authorities. The action plan aims to mitigate, as far as is possible, the impact of the UK not being granted adequacy decisions by EU under the General Data Protection Regulation (GDPR) before 31 December 2020, in order to ensure data flows from the EU/EEA to the UK can legally continue.

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

9. 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 has now commenced a review of the IAR and associated privacy notices.
10. 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 review 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. It will also support the Council in preparing for the end of the EU Exit transition period.
11. It was agreed by SIGG on 17 October 2019 that the update of the IAR will be used to pilot some of this functionality within the Microsoft Office 365 suite. Those officers involved in updating the IAR have been given access to all of the functionality within Microsoft Teams.
12. A Microsoft Team has now been created comprising of the Data Protection Officer (DPO), Information Asset Owners (IOAs) and those officers nominated by IOAs to update the IAR on their behalf. All updates to the IAR are taking place within the Team and the functionality in terms of being able to collaborate on the document remotely is proving very successful.

CCTV

13. As set out in the last update to Audit Committee the 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.

14. The DPO continues to work directly with those services that use CCTV to ensure compliance.

Training and awareness

15. Internal Audit identified an issue with the figures reported in terms of completion rates i.e. that the figures provided are obtained from Academy 10 and do not include those employees who do not have access to a computer to complete the training.
16. While non-IT users are less likely to process personal data, Internal Audit recommended the figures should include completion rates for non-IT users. HR has contacted the managers responsible for those staff who do not have access to a computer and asked for both the Data Protection 2018 and Social Media modules to be prioritised.
17. The revised table in Appendix 2 shows the position at 15 October 2020 with regard to the completion of the mandatory on-line information governance courses for IT and where applicable, non-IT users. Completion rates of over 95% for the courses remains the Council's target and represents an acceptable level of take up which must be maintained.
18. The current position shows the target has been met by Resources in relation to Information Security and Data Protection 2018. Overall, the Council has not met its target in relation to any of the three modules. It is worth noting the new Social Media policy was only launched in April 2020.
19. In order to drive up completing rates, in October the Council is moving to the Traffic Light Facility in Academy 10. This dashboard will enable managers to monitor real time progress against all essential modules. The facility will also send prompts in relation to outstanding modules. With regards to completion rates for non-IT users, this will be chased and reported to ADs, where appropriate, on a quarterly basis.

Conclusion

20. 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

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

Appendix 2

15/10/2020	Info Sec 2015		Social Media - New Module launched April 2020		DPA 2018		Computer Users - As at 01.09.20
	Comp	%age	Comp	%age	Comp	%age	
Children & Adult's Services	539	92.29	348	59.59	543	92.98	584
Adult Services	133	93.66	56	39.44	133	93.66	142
Children's Services	210	89.36	131	55.74	216	91.91	235
Commissioning, Performance & Transformation	106	94.64	86	76.79	105	93.75	112
Educational Services	83	94.32	73	82.95	82	93.18	88
Public Health	7	100.00	2	28.57	7	100.00	7
Economic Growth & Neighbourhood Services	498	94.86	218	41.52	489	93.14	525
Community Services	168	89.84	55	29.41	167	89.30	187
Economic Growth	51	96.23	23	43.40	49	92.45	53
Housing and Building Services	214	99.07	115	53.24	212	98.15	216
Transport & Capital Projects	65	94.20	25	36.23	61	88.41	69
Resources	163	97.02	122	72.62	164	97.62	168
Darlington Partnership & Creative Darlington	3	100.00	1	33.33	3	100.00	3
Finance, HRM, Systems & Strat, Perf & Comms	85	96.59	63	71.59	86	97.73	88
Law & Governance	75	97.40	58	75.32	75	97.40	77
Total	1200	93.97	688	53.88	1196	93.66	1277
	Comp	%age	Comp	%age	Comp	%age	None Computer Users
None Academy 10 Users	N/A	N/A	To follow	To follow	197	30.40	648
Overall	N/A	N/A	To follow	To follow	1393	72.36	1925

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**AUDIT COMMITTEE
28 OCTOBER 2020**

ITEM NO.

**MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT
MONITORING REPORT 2020/21**

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 2020 of the 2020/21 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 £188.018m and the Authorised Limit to £229.233m to allow for any additional cashflow requirement.
5. Investments now include £30m in property funds which are expected to increase our net return on investments by around £0.500m 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, 11 and 13 to 18 are examined.
 - (b) The Committee note the proposal in para. 32 re the potential of Darlington College accessing the Council's loan facility in accordance with the Capital Strategy.
 - (c) The underspend in the Treasury Management Budget (Financing Costs) of £0.110m shown in Table 12 is noted.
 - (d) 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 2020/21
- (ii) Prudential Indicators & Treasury Management Strategy 2020/21
- (iii) Accounting records
- (iv) 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 20 February 2020.
9. This report concentrates on the revised positions for 2020/21. Future year's indicators will be revised when the impact of the MTFP 2021/22 onwards is known.
10. A summary of the revised headline indicators for 2020/21 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 2020 and the means by which it is financed.

Table 1 Headline Indicators

	2020/21 Original Estimate	2020/21 Revised Estimate
	£m	£m
Capital Expenditure (Tables 2 and 3)	45.179	31.798
Capital Financing Requirement (Table 4)	226.040	218.317
Operational Boundary for External Debt (Table 4)	197.118	188.018
Authorised Limit for External Debt (Table 6)	237.342	229.233
Ratio of Financing Costs to net revenue stream- General Fund (Table 15)	2.85%	2.73%
Ratio of Financing Costs to net revenue stream- Housing Revenue Account (HRA)(Table 15)	17.48%	12.78%

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 2020/21

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	2020/21 Original Estimate	2020/21 Revised Estimate
	£m	£m
General Fund	15.457	20.130
HRA	28.843	14.900
Total Estimated Capital Expenditure	44.300	35.030
Loans to Joint Ventures	0.879	(3.232)
Total	45.179	31.798

16. The changes to the 2020/21 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 £159.755m but this includes a number of schemes that will be spent over a number of years not just in 2020/21. A reduction of £127.956m has been allowed for schemes which are known will be finalised in future years, but it is likely that other schemes 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 2020/21 due to borrowing not required in previous years for slipped schemes but expected to

be needed this year. This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 3

Capital Expenditure	2020/21 Original Estimate	2020/21 Revised Estimate
	£m	£m
General Fund	15.457	20.130
HRA	28.843	14.900
Loans to Joint Ventures	0.879	(3.232)
Total Capital expenditure	45.179	31.798
Financed By:		
Capital Receipts - Housing	0.303	0.303
Capital Receipts –General Fund	0.800	0.963
Capital grants	8.757	14.917
HRA Revenue Contributions	10.551	14.597
HRA Investment Fund	8.722	0.000
Self-Financing - GF	0.500	0.250
Total Financing	29.633	31.030
Borrowing Need	15.546	0.768

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 shows the expected actual debt position over the period. This is called the Operational Boundary. The reduction in Borrowing Need (Table 3) is around £14.8m and currently actual borrowing for the Council is £171.661m. The reduction is due to the Housing programme being delayed due to Covid 19, as well as the Council receiving repayments from the joint ventures of amounts previously loaned. It is proposed to set an actual borrowing figure of £177.660m 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 2020/21.

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

	2020/21 Original Estimate	2020/21 Revised Estimate
	£m	£m
Prudential Indicator- Capital Financing Requirement		
Opening CFR- Post Audit of Accounts	216.930	219.488
CFR General Fund	124.680	143.024
CFR General Fund PFI/Leasing IFRS	10.358	10.358
CFR – Housing	73.338	68.168
CFR – Loans to Joint Ventures	17.664	(3.232)
Total Closing CFR	226.040	218.317
Net Movement in CFR	9.110	(1.171)
Borrowing	186.760	177.660
Other long Term Liabilities	10.358	10.358
Total Debt 31 March- Operational Boundary	197.118	188.018

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

	2020/21 Original Estimate £m	2020/21 Revised Estimate £m	2021/22 Revised Estimate £m	2022/23 Original Estimate £m
Gross borrowing	186.760	177.660	192.660	207.660
Plus Other Long Term Liabilities	10.358	10.358	9.232	8.117
Total Gross Borrowing	197.118	188.018	201.892	215.777
CFR* (year-end position)	226.040	218.317	240.503	253.402

* 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 is currently set 5% above the Capital Financing Requirement to allow for any additional cashflow needs, the revised figure for 2020/21 has been raised by 5% of the new CFR total. 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	2020/21 Original Indicator £m	2020/21 Revised Indicator £m
Capital Financing Requirement	226.040	218.317
Additional headroom to Capital Financing Requirement	11.302	10.916
Total Authorised Limit for External Debt	237.342	229.233

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
	%	%	%	%	%
2020/21					
Dec 2020	0.10	1.90	2.10	2.50	2.30
March 2021	0.10	2.00	2.10	2.50	2.30
2021/22					
June 2021	0.10	2.00	2.10	2.50	2.30
Sept 2021	0.10	2.00	2.10	2.60	2.40
Dec 2021	0.10	2.00	2.20	2.60	2.40
March 2022	0.10	2.00	2.20	2.60	2.40
2022/23					
June 2022	0.10	2.10	2.20	2.70	2.50
Sept 2022	0.10	2.10	2.30	2.70	2.50
Dec 2022	0.10	2.10	2.30	2.70	2.50
March 2023	0.10	2.10	2.30	2.70	2.50

*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, although if it is for Housing purposes through the HRA you can take another 1.00% off the above rates.

24. From the local authority borrowing perspective, HM Treasury imposed **two changes of margins over gilt yields for PWLB rates** in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for

mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31st July. It is clear that the Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).

25. It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year.
26. As the interest forecast table for PWLB certainty rates (table 7), shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.
27. The overall balance of risks to economic growth in the UK is probably relatively even but is subject to major uncertainty due to the virus.
28. There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.
29. The downside risks to current forecasts for UK gilt yields and PWLB rates currently include:
 - **UK** - second nationwide wave of virus infections requiring a national lockdown
 - **UK / EU trade negotiations** – if it were to cause significant economic disruption and a fresh major downturn in the rate of growth.
 - **UK - 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**. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU recently agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU

countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** 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. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- **Geopolitical risks**, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.
- **US – the Presidential election in 2020:** this could have repercussions for the US economy and SINO-US trade relations

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

- UK - stronger than currently expected recovery in UK economy.
- Post-Brexit – if an agreement was reached that removed the majority of threats of economic 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.

Treasury Management Strategy 2020/21 and Annual Investment Strategy Update

31. The Treasury Management Strategy Statement, (TMSS), for 2020/21 was approved by this Council on 20 February 2020.

32. There are no policy changes to the TMSS, although the Council's Capital Strategy includes a section on 'Loans to External Bodies or Organisations' and has been approached about the possibility of Darlington College utilising this facility. The facility is based on the loans being for activities that are aligned to, and support Council service objectives and/or corporate priorities. The loan if and when required would be subject to due diligence and would need to be agreed through Cabinet /Council but as Audit Committee has a Governance role it was thought prudent to

highlight the possibility of it through this report as it is a Treasury Management matter. If and when agreed the Operational Boundary and Authorised Limit will need to be amended to accommodate any increase in the CFR.

33. The details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Debt Activity during 2020/21

34. The expected net borrowing need is set out in **Table 8**

Table 8

	2020/21 Original Estimate £m	2020/21 Revised Estimate £m
CFR (year-end position) from Table 4	226.040	218.317
<u>Less</u> other long term liabilities PFI and finance leases	10.358	10.358
Net adjusted CFR (net year end position)	215.682	207.959
Expected Borrowing	186.760	175.600
(Under)/ Over borrowing	(28.922)	(32.359)
Expected Net movement in CFR	9.110	(1.171)
Net financing need for the year from table 3	15.546	0.768
Less MRP General Fund	0.000	0.000
Less MRP Housing	0.629	0.799
Less MRP relating to finance leases including PFI	1.140	1.140
Movement in CFR (Net Borrowing Need)	13.777	(1.171)

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

Table 9

Date Taken	Term	Amount £m	Interest Rate	Purpose	Lender
22/05/2020	1 year	2	0.90	Property Funds	Other Local Authority
22/05/2020	1 year	3	0.90	Property Funds	Other Local Authority
01/09/2020	2 years	5	0.90	General	Other Local Authority

36. The amount borrowed by the Council now stands at £171.661m, this excludes any additional cashflow loans which may be required.
37. There will still be an element of under-borrowing by the Council at the end of March 2021.

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 2020/21

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 0.10% 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 2020 to 15 October 2020

40. Current investment position – The Council held £67.499m of investments at 15/10/2020 and this is made up of the following types of investment.

Table 10

Sector	Country	Up to 1 year £m
Banks	UK	8.000
AAA Money Market Funds	Sterling Funds	19.500
Other Local Authorities	UK	10.000
Property Funds - CCLA	UK	10.000
Hermes		10.000
Lothbury	UK	9.999
Total		67.499

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 41 investments were made in the period 1 April 2020 to 30 September 2019 totalling c£55m these were for short periods of up to 100 days and earned interest of £0.015m on an average balance of £18.048m which equated to an annual average interest rate of 0.16%.

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 term investment achievements (up to 3 months) are above market expectations.

Table 11

	Cashflow Investments %
Darlington Borough Council - Actual	0.16
External Comparators	
London Interbank Bid Rate 7 day	(0.06)
London Interbank Bid Rate 3 months	0.09
London Interbank Bid Rate 1 year	0.20

Treasury Management Budget

43. There are three main elements within the Treasury Management Budget:-
- 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.
 - 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.
 - 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 2020/21

	£m	£m
Original Financing Costs Budget 2020/21		0.895
Less reduced Interest payments paid on debt	(0.266)	
Add reduced returns on Property Funds	0.141	
Add increased charges	0.015	
Total adjustments		(0.110)
Revised Treasury Management Budget 2020/21		0.785

44. This statement concludes that the Treasury Management budget is forecast to underspent by £0.110m in 2020/21, 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 13. 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 2020/21	Actual July	Actual September
Year 1	0.077%	0.009%	0.007%

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 14

Table 14

	Benchmark 2020/21	Actual June	Actual September
Weighted Average Life	0.4 – 1 year	0.42 years	0.39 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 £0.110m.

Table 15

	2020/21 Original Indicator	2020/21 Revised Indicator
General Fund	2.85%	2.73%
HRA	17.48%	12.78%

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

	2020/21 Original Indicator	2020/21 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

	2020/21 Original indicator	2020/21 Actual to Date	2020/21 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

	2020/21 Original Indicator	2020/21 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 £188.018m. The Council's return on investments has been good, exceeding both of the targets. Based on the first six months of 2020/21 the Council's borrowing and investments is forecast to underspend by £0.110m on the approved 2020/21 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.

AUDIT COMMITTEE
28 October 2020

AUDIT SERVICES – ACTIVITY REPORT

SUMMARY REPORT

Purpose of the Report

1. To provide Members with a progress report of activity and proposed activity for the next period.

Summary

2. The report outlines progress to date on audit assignment work, consultancy/contingency activity.

Recommendation

3. It is recommended that the activity and results be noted.

Reasons

4. 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) Departmental Audit Reports

Andrew Barber: Extension 156176

S17 Crime and Disorder	Other than any special investigation work there is no crime and disorder impact.
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Health and Well Being	There is no specific health and well being 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 governance arrangements.
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Information and Analysis

5. Members will be aware of a change in approach from traditional audit assignments to individual control testing and reporting. This requires a different approach in terms of reporting on activity and this will be developed further in the coming months. Additionally there is a move away from annual audit planning to quarterly planning to enable the service to respond more effectively to the changing risk environment.
6. 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.
7. Appendix 1 provides members with detailed feedback on the performance of the service and the position in relation to completion of audit work. COVID-19 has brought challenges to the Authority and has quite rightly been the focus for a number of service areas. Audit advice has been provided as required and time has been spent transitioning to the new ways of working. Testing has however been undertaken and good progress has been made to date.
8. The audit team is currently at full capacity with sufficient resource available to deliver testing against the current risk assessment.
9. In line with good practice, at an appropriate time, Audit Services follow up with Managers progress on implementation of audit recommendations agreed as part of audit work.

10. The Shared Service has also responded to routine requests from Groups for advice and guidance on operational matters.

Outcome of Consultation

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

**INTERNAL AUDIT
AUDIT COMMITTEE UPDATE REPORT
2020/21**

Results Since 1 September

Very Low			Low			Medium			High			Very High		
R	A	G	R	A	G	R	A	G	R	A	G	R	A	G
0	0	0	0	0	4	0	1	3	0	0	6	0	0	1

Planned Work Next Period

	Very Low	Low	Medium	High	Very High
DBC	2	32	42	20	6
SBC	1	11	27	18	5

Minimum Resources Required : 408
 Resources Available: 422

Current Overall Assurance

