



DARLINGTON

Borough Council

Audit Committee Agenda

2.00 pm

Monday, 22 July 2024

Council Chamber, Town Hall, Darlington DL1 5QT

Members of the Public are welcome to attend this Meeting.

1. Introductions/Attendance at Meeting
2. Chair –
To appoint a Chair for this Committee for the Municipal Year 2024/25.
3. Vice-Chair –
To appoint a Vice-Chair for this Committee for the Municipal Year 2024/25.
4. Time of Meetings –
To consider the times of Meetings of this Committee for the Municipal Year 2024/25 on the dates agreed by Cabinet.
5. Declarations of Interest.
6. To Approve the Minutes of the Meeting of this Committee held on 8 April 2024 (Pages 5 - 10)
7. Audit of Accounts 2022/23 - Audit Update – Report of the Group Director of Operations. (Pages 11 - 36)
8. Annual Review of Significant Partnerships 2023/24 – Report of the Partnerships Director. (Pages 37 - 40)
9. Annual Risk Management 2023/24 – Report of the Chief Executive. (Pages 41 - 64)

10. Managers' Assurance Statements – Report of the Group Director of Operations.
(Pages 65 - 70)
11. Audit Services Audit Work 2023/24 - Annual Report – Report of the Assurance Manager.
(Pages 71 - 82)
12. Audit Services - Activity Report – Report of the Assurance Manager.
(Pages 83 - 94)
13. Taxation Strategy – Report of the Group Director of Operations.
(Pages 95 - 102)
14. Treasury Management Annual Report and Outturn Prudential Indicators 2023/24 –
Report of the Group Director of Operations.
(Pages 103 - 122)
15. 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.
16. Questions



Luke Swinhoe
Assistant Director Law and Governance

Friday, 12 July 2024

Town Hall
Darlington.

Membership

Councillors Baker, Durham, Garner, Henderson, Keir and McGill

If you need this information in a different language or format or you have any other queries on this agenda please contact Olivia Hugill, Democratic Officer, Operations 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 :Olivia.hugill@darlington.gov.uk

AUDIT COMMITTEE
Monday, 8 April 2024

PRESENT – Councillors Henderson (Chair), Baker, Garner, Keir and McGill

ABSENT – Councillors Durham

OFFICERS IN ATTENDANCE – Luke Swinhoe (Assistant Director Law and Governance), Lee Downey (Complaints and Information Governance Manager), Andrew Barber (Audit and Risk Manager, Stockton Borough Council), Evans (Head of ICT), Brett Nielsen (Assistant Director Resources) and Judith Murray (Finance Manager)

A29 DECLARATIONS OF INTEREST

There were no declarations of interest reported at the meeting.

A30 TO APPROVE THE MINUTES OF THE MEETING OF THIS COMMITTEE HELD ON 22 JANUARY 2024

Submitted – The Minutes (previously circulated) of the Audit Committee held on 22 January 2024.

RESOLVED – That the Minutes of the Audit Committee held on 22 January 2024 be approved as a correct record.

A31 ETHICAL GOVERNANCE AND MEMBER STANDARDS - UPDATE REPORT

The Assistant Director Law and Governance and Monitoring Officer submitted a report (previously circulated) updating Members on the issues relevant to Member standards and ethical governance since last reported to this Committee in September 2023.

The submitted report set out a number of datasets of ethical indicators to assist in monitoring the ethical health of the Council and by reviewing these indicators it was hoped to be able identify any unusual or significant trends or changes in the volume of data recorded for the relevant period that might provide an alert to any deterioration in the ethical health of the authority.

The submitted report also included commentary for some data sets to give analysis and explanation for some of the more notable variations and it was reported that there were no particular issues of concern that had been identified from reviewing the data.

Discussion ensued around the datasets which reflected the complaints around Members; How the issues are addressed to Members and how the complaint will be closed.

RESOLVED – That the report be noted.

A32 INFORMATION GOVERNANCE PROGRAMME PROGRESS REPORT

The Group Director of Operations submitted a report (previously circulated) providing a six-

monthly update, as required by the Systems and Information Governance Group (SIGG), on the progress and planned developments of the information governance programme.

It was reported that the ongoing delivery of the information governance programme continued to provide the assurance required to reduce the information risks to an acceptable level and outlined the ongoing works.

It was also reported that the area of highest priority in the information governance programme was the Microsoft Office 365 Programme and Cyber Security Phishing Simulation.

Discussion ensued around the Social Media Module; there is now a two-year expiry period which was set at the beginning of this year, this explained to Members why there was a drop in completion rates. Members queried how non-IT users were offered support for this.

RESOLVED – That the report be received.

A33 ICT STRATEGY - IMPLEMENTATION PROGRESS REPORT

The Head of ICT Services - Xentrall Shared Services submitted a report (previously circulated) providing a six-monthly update on progress in relation to the implementation of the ICT Strategy.

It was reported that the current ICT Strategy focused on three strategic priorities, namely ICT Governance and Service Development; ICT Strategic Architecture; Council Service Development and Transformation.

This submitted report summarised progress on the main activities within each of these priorities.

RESOLVED – That the report be noted.

A34 AUDIT SERVICES - AUDIT CHARTER

The Audit and Risk Manager submitted a report (previously circulated) together with the Audit Services' Audit Charter for 2024-25.

It was reported that it was a requirement for the Council to have an internal audit function, outlined in Section 151 of the Local Government Act 1972, with more specific requirements detailed in the Accounts and Audit (England and Wales) Regulations 2015 which required the Council to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

It was reported that no changes were required for the 2024/25 Charter. The report detailed a requirement of the regulation towards service was to maintain compliance with standards and how it should look to improve. Quality Assurance and Improvement Programme (QAIP) has been devised to reflect the new ways of working.

RESOLVED – The Committee approves the Internal Audit Charter and the rights of access conferred within.

A35 AUDIT SERVICES - ACTIVITY REPORT

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

The submitted report outlined progress to date on audit assignment work together with consultancy/contingency activity. Appendix 1 provided members with detailed feedback on the performance of the services related to the completion of audit work.

Also previously circulated was detailed feedback on the management of the risks on the corporate risk register. This has been updated to reflect changes in the corporate risk register.

RESOLVED – That the report be supported.

A36 ANNUAL GRANTS CERTIFICATION REPORT 2021/22

The Group Director of Operations submitted a report (previously circulated) to present the Annual Grants Certification Report and the results of the external audit testing.

It was reported that the Council had engaged its external auditors Ernst and Young (EY) to act as reporting accountants (as per the regulations) in respect of the Housing Subsidy Claim, Teachers Pensions and the Housing Pooling return; EY had not identified any significant issues that required being brought to the attention of Members from any of these claims; and that the total charge for each of the grants was £27,350.

RESOLVED – That the report be noted.

A37 AUDIT OF ACCOUNTS 2021/22

The Group Director of Operations submitted a report (previously circulated), together with a report (previously circulated) of the Council's external auditors on the audit for the year ended 31 March 2022.

In accordance with the Accounts and Audit (Amendment) Regulations 2021, all Local Authorities were required to produce the draft annual Statement of Accounts by 31 July 2022 and an audited set published by 30 November 2022.

As previously reported to this Committee, although the external auditors were not in a position to deliver the audit by the statutory deadline due to national issue of a technical nature involving infrastructures assets which had now been substantially resolved, they had subsequently completed the audit.

Members appreciated the changeover in staffing at the Council's finance team and external audit team, which added to the delay in the commencement of the 2021-22 Audit. Members questioned the storing of evidence and if there were any plans to change paper

accounts to digital. The Committee queried the Grant Register Procedure; how information was previously stored and how it should be stored at current.

RESOLVED – (a) That the Auditor’s Audit Results Report on the Council’s 2021-22 financial statements be noted.

(b) Members noted the Letter of Representation in Appendix D of the Audit Results Report

(c) That the Audit Committee agrees not to amend the unadjusted audit differences as they are not material.

(d) Members noted the attached IFRS (International Financial Reporting Standards) compliant Statement of Accounts at Annex 2 for the 2021-22 financial year.

(e) That, following the auditing of the 2021-22 Statement of Accounts by the Council’s Section 151 Officer (The Group Director of Operations), the Chair and Vice-Chair of this Committee be given delegated power to sign off the Statement of Accounts for the 2021-22 financial year on behalf of the Committee and report back thereon to the next ordinary meeting.

A38 ANNUAL GOVERNANCE STATEMENT

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

It was reported that the council was required to publish its draft AGS no later than 31 July and the final version no later than 30 September of the financial year. While the Council did publish the draft AGS by 31 July due to the ongoing delays in the external audit process the Council was unable to publish the final audited version by 30 September 2022.

The Annual Governance Statement for 2019/20 outlined the Council’s responsibilities; explained the purpose of the governance framework; set out key elements; detailed the review of its effectiveness; and highlighted any significant governance issues; and included a commitment by the leader of the Council and the Managing Director to ensure the continuous improvement of the system in place.

RESOLVED – Members approved the draft Annual Governance Statement (Appendix 1).

A39 AUDIT OF ACCOUNTS 2022/23

Representatives from Ernst and Young (EY) provided members with a verbal update on the Audit of Accounts 2022/23.

Members asked if the goal will be met around the timetable for Audit, EY advised Members that the current guidance for the Audit of Accounts 2022/23 was under consultation and should be confirmed June/July.

The Committee queried if there is any similar guidance in previous years that can be followed. Members appreciated the hard work of both teams.

RESOLVED – That the update be noted.

A40 ACCOUNTING POLICIES TO BE APPLIED TO THE 2023/24 FINANCIAL STATEMENTS

The Group Director of Operations submitted a report (previously circulated) updating Members on the accounting policies to be applied in the preparation of the 2022/23 Statement of Accounts (SoA).

Members were advised that the Accounts and Audit Regulations 2015 and the Local Government Act 2003, required that the SoA's were produced in accordance with proper accounting practices and that one of the responsibilities of this Committee was 'to review the annual statement of accounts prior to approval. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of Council.

The report noted that the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice Guideline Notes have not been release, therefore the majority of the proposed accounting policies for 2023/24 are similar to those used in preparation of the 2022/23 accounts. It is noted that there are no expected changes to the accounting policies.

The report advised the recent CIPFA consultation on changes to the 2023/24 and 2024/25 Codes of Practice in response to the significant backlog in local financial reporting and audit and the proposed backstop dates and recovery processes for local government audits.

RESOLVED – The Committee approves the use in the preparation of the 2023/24 financial statements.

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**AUDIT COMMITTEE
22 JULY 2024**

**AUDIT OF ACCOUNTS 2022/23
AUDIT UPDATE**

SUMMARY REPORT

Purpose of Report

1. To present an interim report from Ernst and Young LLP (EY), on this Council's Value for Money (VFM) arrangements for the audit year 2022/23

Summary

2. The purpose of the interim report is to explain the work undertaken during the period 1 April 2022 to 31 March 2023 and highlight any significant weaknesses identified along with recommendations for improvement.
3. EY's report is attached at **Appendix 1** and will be presented by a representative from EY.

Recommendation

4. It is recommended that the Value for Money Interim Report, as detailed at Appendix 1 to this report, be noted.

Reason

5. To enable the Audit Committee to consider the interim report from Ernst and Young LLP on this Council's Value for Money (VFM) arrangements for the audit year 2022/23.

**Elizabeth Davison
Group Director of Operations**

Background Papers

- (i) National Audit Office Consultation on the Code of Practice – 8 February 2024
- (ii) Code of Practice 2020

Lynne Wood: Extension 5803

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.
Council Plan	There is no specific relevance to the Council Plan 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.

Darlington Borough Council

Value for Money Interim Report

Year ended 31 March 2023

July 2024

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Darlington Borough Council
Town Hall
Feethams
Darlington
DL1 5QT

5 July 2024

Dear Audit Committee Members
2022/23 Value for Money Report

We are pleased to attach our interim commentary on the Value for Money (VFM) arrangements for Darlington Borough Council. This commentary explains the work we have undertaken during the year and highlights any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for audit year 2022/23.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. The National Audit Office (NAO) issued a consultation on 8 February 2024 seeking views on changes to the Code of Audit Practice (the Code) to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements. The consultation proposes to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. At this stage, we are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 22 July 2024.

Yours faithfully

Caroline Mulley

Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/auditquality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to Audit Committee and management of Darlington Borough Council in accordance with the statement of responsibilities. 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.



BOARDROOM



01 Executive Summary



Executive Summary

Purpose

Auditors are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditors provide an annual commentary on arrangements published as part of the Auditor's Annual Report. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

The purpose of this interim commentary is to explain the work we have undertaken during the period 01 April 2022 to 31 March 2023 and highlight any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for audit year 2022/23. The NAO has confirmed that where VFM reporting is outstanding for more than one year, the auditor can issue one report covering all years.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. As part of the NAO consultation issued on 8 February 2024, there is a proposal to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. However, the consultation states that where auditors have begun or already undertaken work that no longer falls under the reduced scope, they may still report on it in accordance with Schedule 4. Please note that whilst the consultations have been launched, we are now awaiting the release of legislation which has been delayed by the General Election. We are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

The report sets out the following areas which have been assessed up to the point of issuing this interim report:

- Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- An explanation of the planned responsive audit procedures to the significant risks identified;
- Findings to date from our planned procedures; and
- Summary of arrangements over the period covered by this report (Appendix A).

We will summarise our final view of the value for money arrangements as part of the Auditor's Annual Report once the audit report has been issued for 2022/23.



Executive Summary (continued)

Risks of Significant Weakness

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of Council committee reports;
- meetings with the Monitoring Officer, s151 Officer and Audit Committee;
- information from external sources; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements.

As a result, we have no matters to report by exception at this stage of the audit and we will update our interim reporting as part of issuing the final commentary in the Auditor's Annual Report later in the year.

Executive Summary (continued)

Reporting

Our interim commentary for 2022/23 is set out over pages 9 to 14. The interim commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2022/23. We include within the VFM commentary below the associated recommendations we have agreed with the Council.

Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2021/22 Auditor's Annual Report and have been updated for 2022/23.

In accordance with the NAO's 2020 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this interim report, we have concluded that there is a significant weakness in the body's arrangements.

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weakness identified



Executive Summary (continued)

Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 01 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

EY Transparency Report 2023

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2023:

[EY UK 2023 Transparency Report | EY UK](#)



02

Value for Money Commentary

Value for Money Commentary

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

No significant weakness identified

Finance staff work with Service managers to identify any potential pressures/savings over the next 4 years at budget setting time (also reviewing any pressures/savings previously identified), agreed by the relevant Assistant Director (AD)/Director and then these are collated by the Corporate Finance Manager and presented to the Chief Officers' Executive (COE) who review and challenge. Numerous iterations are brought back to COE until they are satisfied that the pressures/savings show a true representation of the potential pressures/savings for the foreseeable future. Costings and business plans are required to substantiate pressures/savings where necessary. To underpin all of the above, management performs budget management continuously to any pressures/savings at an early stage and these are presented to Cabinet on a quarterly basis with appropriate action taken. The Medium-Term Financial Plan (MTFP) and Revenue Budget Monitoring (RBM) process also involves portfolio holders in discussions. Management also proactively monitors and amends the budget where considered necessary. Furthermore, the council is also in the process of undertaking a Minimum Service Level (MSL) exercise to look at the services we deliver which again will contribute towards managing financial pressures going forward.

Savings and pressures are identified in a holistic approach. Resources are identified and projected based on intelligence gathered and forecast numbers i.e. council tax is calculated on the existing taxbase with relevant projections of new housebuilding (from Planners) taken into account as well as any previously agreed council tax increases. The Council also commissions external consultants (Local Government (LG) Futures) to help predict any potential changes in resources going forward i.e. NNDR changes through a reset, changes to new homes bonus, etc. The MSL exercise and service reviews are being undertaken to review how services are delivered and look at reducing costs and challenging expenditure. The Council are also looking for innovative ways to provide services differently and looking at ways to increase/generate income from sources other than Council Tax, Business Rates, grant income and as well as from other alternative revenue sources.

The Council's revenue reserves at the end of 2022/23 as per draft financial statements, before any updates relating to adjustments made in the final 2021/22 accounts, were £23.905m, which is £0.508m higher than the 2023-2027 MTFP planned opening balance of £23.397m. This improvement in reserves included a brought forward amount of £0.384m from 2021/22 and a net underspend of £0.124m in overall outturn position during the year. This is an improved position from the 2021-25 MTFP projected year end position of £22.533m.

The 2024/25 MTFP projects a reserves balance of £16.384m at the end of 2023/24 after taking into account the risk reserve balance of £5.350m. As per 2023/24 draft financial statements, the general reserve balance amounted to £18.138m (including the Joint Ventures' reserves), which represents an improvement from the projected reserves balance by £1.754m. The Council anticipated that there will be ongoing pressures leading to a full review of the MTFP in 2024/25. While significant, it is due to costs associated with high demand for Children's Social Care, the rising cost of inflation and living wage increases, which is consistent with Councils across the country. Due to these added pressures, the MTFP projects a budget deficit of £6.283m at the end of the 2024/25 year. In light of the significant financial pressures the Council is facing, efficiency measures and savings to reduce expenditure in areas which do not have a direct impact on service provision has been undertaken and services are continually reviewed in this regard. The 2024/25 MTFP projects savings of £4.019m.

When establishing the Councils medium term financial plan the Council adopts a risk-based approach looking at relevant external factors such as changes in government policy, the state of the economy and the impact on demand for services.

Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services (continued)

No significant weakness identified

The Council maintains a corporate risk register. The risk register contains the risks which are influenced by external factors and arise from outside the Council and internal risks which can stem from normal operations, which may impact upon the achievement of the Council's priorities. The risk register is reviewed by Assistant Directors constantly for the position on the matrix and reported through Audit Committee on a half yearly basis. In order to arrive at an overall risk rating, a risk matrix is used based on the impact of the risk and the likelihood of it materialising. Once the risk rating is determined an action plan identifying further mitigating action is put in place.

The risks identified in the 2022/23 are in line with our expectations of both the Council's and the sector's risks, many of which relate to, the Covid-19 pandemic, and changes in service demand, as well as the rising cost of living expenses. The identification of such risks is clear, and the Council has sufficient arrangements in place to mitigate the impacts of these risks to ensure sustainable delivery of services. Furthermore, the Council have a revenue budget management process in place to support the sustainable delivery of services as well as capital expenditure monitoring reports with financial commitments and business case reviews which are taken to DLT/SLT. These support sustainable delivery in accordance with strategic and statutory priorities.

The MTFP is under the same directorship as the workforce, capital, investment and operational planning ensuring consistency across the board. The capital strategy incorporates the capital programme and was previously embedded with the investment strategy plan being part of the Treasury Management Strategy (TMS). The Capital Strategy is now separate and just goes to Council. From 2022/23 the Capital MTFP was merged into the main MTFP report. The TMS is presented to Audit Committee Economy & Resources Scrutiny, Cabinet & Council to be scrutinised by Members. The main MTFP is presented to cabinet and Council. The MTFP, Capital Strategy & TMS are interlinked, and all approved by Council at the same time. Finance & Legal sign off all reports after the Director/Assistant Director. Chief Officers Board (COB) which consists of all the assistant directors of the Council meet on a weekly basis and all above plans will be discussed as appropriate to ensure consistency and that they are all fit for purpose and agree with the Council's vision. The management team of the Council that consists of all the Directors also meets independently of COB to discuss the strategic direction of the Council. The Director of Operations has regular scheduled meetings with other Directors of Resources in the Tees Valley where common aims are discussed and agreed and to share best practice ensuring some form of consistency across the Tees Valley. The Assistant Director of Resources also meets with their Tees Valley counterparts which helps to enforce and support sharing best practice and consistency. There are also lots of meetings with other external counterparties across the services, e.g. Tees Valley Chief Accountants group and a regional HR group. All of these help to ensure financial plans are consistent with other plans where relevant.

The Council has a (costed) risk reserve that identifies potential changes in demand, again as the Council does continual budget management any changes or inherent risks are identified at an early stage so that appropriate action can be taken and to ensure that any risks identified can be built into future plans.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services

Value for Money Commentary

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

No significant weakness identified

The Council has a comprehensive risk register that is facilitated by the Complaints and information Governance Manager who liaises with all service groups and produces a Corporate risk register as well as individual service group matrices - the results are presented to Audit Committee on a half yearly basis with the Risk Management Strategy going to Cabinet. The Council has an Internal Audit Section (a shared service with Stockton Borough Council) that has a comprehensive risk based audit approach to all of the services in Darlington, this includes an Audit dashboard where each AD and Director can access the audit results in their areas and reported to Audit Committee on a quarterly basis. The council also have policies to protect against fraud, e.g. whistleblowing and adopt the Academy 10 training units which all staff are required to undertake. Compliance with Academy 10 is also reported to AD's for action.

The Council starts its budget setting cycle early (July) with Finance officers liaising with service managers and reviewing the previous years performance as well as the current MTFP budgets before identifying any potential future pressures/savings. A set of guidance notes is produced by corporate finance to ensure a consistent approach. Any changes to services are identified early so that COE can review them to ascertain their validity. Each service group works to an agreed resource allocation envelope that is part of the MTFP process that identifies resources to fund the MTFP. The draft MTFP for the next 4 years is presented to Cabinet in December to allow a consultation period with relevant stakeholders etc until it is brought back to Cabinet in February before going to full Council in February for approval and subsequent implementation. The continuous RBM that the Council carries out also contributes to the budget cycle as most pressures/savings or potential amendments to the MTFP will have been identified at an early stage. Cabinet are also kept in the informed of the contents of the MTFP before the formal report goes to Cabinet.

The Council does continuous budget management with the aid of an electronic budget management system (FMS) that automatically sends out budget management reports on spend/budget/commitments etc. every month on email to each budget holder. This is completed by the budget manager with support from the finance team. The completed sheets are loaded back into the FMS to allow relevant reports to be produced. The Council works on a risk basis with high risk areas receiving financial advice on a monthly basis and low risk areas every 3 months, with an Outturn report taken at end of year (June/July). The results of the budget management process are presented to COE/Chief Officer's Board (COB) and AD's have monthly briefings with the relevant portfolio holder to update them of the financial situation. These reports are also on the Agenda of Economy & Resources Scrutiny Committee every quarter who scrutinise the budget position and pass comments on to Cabinet. The reports then go to Cabinet every quarter to enable Members to analyse the ongoing financial situation. Budget managers have responsibility in their job descriptions and will discuss their budgets with their manager/AD.

Furthermore, the Audit Committee meet on a quarterly basis to review and challenge the Council's governance, audit and treasury management activities and policies. Audit committee will also review and challenge the Council's Annual Statement of Accounts. The Council recognises that in order to fulfil its purpose and deliver the intended outcomes for its citizens and service users it needs to have in place comprehensive arrangements for corporate governance and accountability designed to ensure that it operates in an effective, efficient and ethical manner.

The Council has a wide range of HR policies covering expectations and requirements of staff. These are categorised into a number of themes, for example policies relating to the conduct of individuals (e.g. anti-fraud, bullying, whistleblowing policies etc.). Failure to adhere to these policies can result in disciplinary procedures against individuals.

Value for Money Commentary

Governance: How the Council ensures that it makes informed decisions and properly manages its risks (continued)

No significant weakness identified

The Council also has a scheme of delegation for decision making. Matters are considered by management teams (DLT/SLT) and also by COE/COB. The Constitution shows the reporting cycle. Finance provide assistance/advice (as well as legal, procurement etc) on all Cabinet reports to ensure members have all the information needed for the decision.

The Council has policies on these areas that everybody is required to read and acknowledge, with relevant statistics produced and reported to Audit Committee on a regular basis as well as the results of any said action taken if the standards have not been met (report by Monitoring Officer).

The Council published their draft 2022/23 financial statements for audit on the 03 July 2023 and made available for inspection between 03 July and 14 August 2023 in line with the Audit and Accounts regulations. Under the Accounts and Audit Regulations 2015, the Council is required to start the inspection period within the first 10 working days of June. The Council issued a notice of delay for inspection citing valuation issues that arose during 2021/22 audit as reason. As the inspection period did not commence on or before 10 June 2023, the Council was in breach of these regulations. Furthermore, we have noted that the publication of draft 2023/24 financial statements was also delayed and published on 21 June 2024. The reason for the delay was due to the delayed receipt of external valuations. We have noted similar breaches in the regulations (i.e. late publication of the draft financial statements) for a number of councils across the sector due to various reasons.

We also confirm that the 2022/23 draft financial statements were arithmetically correct, agreed to the data in the general ledger, and prepared in line with the content required by the CIPFA Code. We take note that the draft 2022/23 financial statements was not reissued to reflect the adjustments from the audited 2021/22 financial statements. This was due to the delay in finalisation of the 2021/22 financial statements and the then impending reporting requirements for the draft 2023/24 financial statements publication. The Council has also carried out bank reconciliations during the year. Therefore, appropriate arrangements for financial reporting were in place during 2022/23.

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control, and this is documented in this Annual Governance Statement. The review of effectiveness is informed by an Assurance Framework, which includes the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Annual Internal Audit Report, and also comments made by the external auditors and other review agencies and inspectorates.

The Annual Governance Statement was published on 30 June 2023 and thereby made available for inspection alongside the financial statement. Under the Accounts and Audit Regulations 2015 (Section 15, Para. 2), the Council is also required to include a copy of Annual Governance Statement during the inspection period and must be published within the required period set by the regulation. As the Annual Governance Statement was not made available until end of June 2023, the Council was in breach of these regulations. Similarly to the late publication of the draft financial statements above, we have noted similar breaches in the regulations (i.e. late publication of the Annual Governance Statement) for a number of councils across the sector due to various reasons.

Value for Money Commentary

Governance: How the Council ensures that it makes informed decisions and properly manages its risks (continued)

No significant weakness identified

While we are content that appropriate arrangements for preparation of financial statements and Annual Governance Statement were in place during 2022/23 to support the Council's governance arrangements, we recommend that the Council ensures that future financial statements and Annual Governance Statement is published in accordance with the requirements stipulated in the Accounts and Audit Regulations 2015.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to make informed decisions and properly manage its risks.

Value for Money Commentary

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

No significant weakness identified

Management does benchmarking with other local authorities within the Tees Valley area to ensure that it is not an outlier in terms of performance - they still strive to keep costs at an acceptable level. In setting the budget, they use statistical data to ensure costs are correctly identified. Performance improvements are reported through Scrutiny Committees and there is a performance clinic held with AD's/Directors. Performance teams review performance with managements.

The Council is constantly striving to improve their services by embracing and identifying best practice. Whilst formal oversight and input from the Department for Education (DfE) and Leeds City Council ended in 2022, the Council have continued to develop the programme which informs the key strategic aims for the service for 2023/24. The Council also has peer reviews to help identify direction of travel and where appropriate work with strategic partners to help identify areas for improvement. Performance teams review performance with managements. The Council is also externally inspected by Ofsted and work with regional and Tees Valley groups such as the Tees Valley Director of Resources group to monitor and benchmark our performance and identify areas for improvement.

The Council have a partnership tool kit that identifies the significant partners of the Council to ensure that adequate governance arrangements are in place, and this is reported to Audit Committee annually. There are also annual reviews of significant partnerships led by the Darlington Partnership Director based upon the completion of an annual review form and provision of evidence demonstrating the governance arrangements have been adhered to. The report to Audit Committee provides evidence on performance and that governance arrangements in place are being adhered to. The toolkit also allows for identification of high-level concerns of the significant partnership which can therefore be monitored closely. As above quarterly financial reports (both revenue and capital) are taken to Cabinet to allow them to monitor the financial situation of the Council and take any action as appropriate. The annual MTFP is presented to Cabinet every December and recommended for consultation with stakeholders, the public and scrutiny committees before the final report is presented to Special Council in the following February (after taking account of any constructive feedback). The council also consult on other potential service changes which may not be included within the MTFP.

The Council has a dedicated Procurement section and a well-established process to ensure that all contracts (over the de minimis limit of £10k) follow the recognised procedure of going to Procurement Board (with AD's) to be agreed. There is also a flag on the FMS (Agresso) that gives a warning to the Procurement section of any invoice over the £10k limit that has not had Procurement Board approval. The contracts register is published on the website and is periodically updated. Procurement also analyse the spend of the Council on a continuous basis to ensure consistency and identify anomalies. The Council also has a set of Contract procedure Rules (issued in accordance with s135 of the Local Government Act 1972) which are intended to promote good purchasing practice and public accountability, deter corruption and assure value for money is obtained in the use of public funds. Officers responsible for purchasing or disposal must comply with these contract procedure rules. Procurement also provide an annual list of contract up for renewal and these are agreed by Cabinet. Procurement also provide advice to managers on procurement related matters

Value for Money Commentary

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

No significant weakness identified

In May - June 2022, the Council embarked on a Peer Review. The Council wrote a position statement and over 120 people from the Council, private and the third sector were interviewed by the team from the Local Government Association (LGA). The report highlighted that the Council is well led with a positive culture, where staff are keen to get on with things and make a difference to the Borough. Compared to local government as a whole, the organisation is financially secure and has the appropriate governance and risk management arrangements in place - though there are emerging financial risks on the horizon associated with increased demand for social care services, inflation and the cost-of-living crises. The LGA has also made particular references to the partnerships the Council has, the workforce who resonated positivity, the great economic growth achievements made to date, and the opportunities emerging for Darlington.

The LGA report raised 6 recommendations and on 11 October 2022, the Council has agreed to develop and publish an action plan and an update on Cabinet's recommendations was presented on 8 November 2022. The recommendation and respective actions plans are summarised below:

- Develop a strategic framework to ensure that economic growth is linked to tackling the challenges of inequality and deprivation in Darlington.
 - Action Plan: The Council will continue to work with partners to develop and deliver the Levelling Up Darlington (LUD) Action Plan. The LUD plan directly supports two of the key priorities within the Council Plan, these being 'Working with communities to maximise their potential' and 'Supporting the most vulnerable in the borough'. A performance framework associated with the LUD plan will be used to monitor its delivery and impact.
- Undertake further work to ensure the whole of the organisation understands their role in Council priorities, including making the link between economic growth and improving opportunities for the most vulnerable in the Borough.
 - Action Plan: The annual service planning process requires managers to consider how activities within their service areas contribute to the delivery of the priorities within the Council Plan. An internal communications plan will also be developed before the end of the financial year which will highlight links between economic growth and improving opportunities for the most vulnerable. New members are offered an induction programme, with additional training, briefings and support offered to all members throughout their term in office.
- Establish a refreshed strategic partnership for Darlington which can engage all partners in the delivery of the Levelling Up Darlington Plan, including the business community and the community & voluntary sector.
 - Action Plan: Prior to Peer Review, there's already the creation of the Public Sector Executive Group (PSEG) consisting of senior representatives from local and sub regional public bodies who have the interest and ability to have a significant positive impact in the delivery of a shared vision (Levelling Up Darlington). Also, a newly established overarching 'Stronger Communities Board' (SCB) had its inaugural meeting in November 2022. Where possible, this will include board level representatives from the public, voluntary and community, and business communities.
- Further lever the Council's strategic influence in the region
 - Action Plan: Kept s numerous formal and informal relationships which include roles within the Tees Valley Combined Authority, the Association of North East Councils (ANEC), and arrangements with various health related organisations and blue light services. The Council also established an active role within the new local NHS Integrated Care Board (ICB).

Value for Money Commentary

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

No significant weakness identified

- Review the assumptions in the MTFP - particularly the reliance on reserves over the medium term - in the light of rising costs, increased demand for social care services and greater economic uncertainty.
 - Action Plan: The MTFP is a standing item on the weekly Chief Officers Executive and Chief Officers Board meetings, and cabinet members are regularly briefed on developments. The current year budget is reviewed by finance officers and budget managers monthly with any issues reported through departmental management teams and chief officers as appropriate. Formal quarterly budget reports, which identify the current budget position, trends and future projections are reported to Cabinet. Finance staff and budget holders also reviewed the budgets for the next 4 years of the MTFP in advance of the scheduled planning activities between October and February which will involve officers at various levels across the council. The planning activities explore established and innovative approaches for income generation and cost reduction.
- Develop, with partners and local people, a compelling narrative as to how economic growth brings benefits to residents and communities.
 - Action Plan: The Council started to develop an economic growth narrative with key stakeholders and an associated action plan with performance measures will be created to ensure the message is clearly communicated to and understood by the target audiences. This also supports the action plan for the second recommendation discussed earlier. Furthermore, the narrative will be developed in conjunction with partners within the refreshed strategic partnership and their endorsement and support will be sought to help amplify the narrative.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



03 Appendices

Appendix A - Summary of arrangements

Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

Reporting criteria considerations

Arrangements in place

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

Finance staff work with Service managers to identify any potential pressures/savings and service changes over the next 4 years at budget setting time (also reviewing any pressures/savings previously identified), agreed by the relevant Assistant Director/Director and then these are collated by the Corporate Finance Manager and presented to COE who review and challenge. Numerous iterations are brought back to COE until they are satisfied that the pressures/savings show a true representation of the potential pressures/savings for the foreseeable future. Costings and business plans are required to substantiate pressures/savings where necessary. To underpin all of the above they are continually doing budget management that identifies any pressures/savings at an early stage and these are presented to Cabinet on a quarterly basis with appropriate action taken. The MTFP/RBM process also involves portfolio holders in discussions.

The fact that the Council are proactively monitoring and amending the budget where deemed necessary demonstrates that their arrangements are sufficient enough to identify and plan ahead in taking measures that will help address financial pressures going forward. The council are also in the process of undertaking a MSL exercise to look at the services we deliver which again will contribute towards managing financial pressures going forward.

How the body plans to bridge its funding gaps and identifies achievable savings

Savings and pressures are identified in a holistic approach. Resources are identified and projected based on intelligence gathered and forecast numbers i.e. council tax is calculated on the existing taxbase with relevant projections of new housebuilding (from Planners) taken into account as well as any previously agreed council tax increases. The Council also commissions external consultants (Local Government (LG) Futures) to help predict any potential changes in resources going forward i.e. NNDR changes through a reset, changes to new homes bonus, etc. The MSL exercise and service reviews are being undertaken to review how services are delivered and look at reducing costs and challenging expenditure. The Council are also looking for innovative ways to provide services differently and looking at ways to increase/generate income from sources other than Council Tax, Business Rates, grant income and as well as from other alternative revenue sources.

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

When establishing the Councils medium term financial plan the Council adopts a risk-based approach looking at relevant external factors such as changes in government policy, the state of the economy and the impact on demand for services.

The Council maintains a corporate risk register. The risk register contains the risks which are influenced by external factors and arise from outside the Council and internal risks which can stem from normal operations, which may impact upon the achievement of the Council's priorities. The risk register is reviewed by Assistant Directors constantly for the position on the matrix and reported through Audit Committee on a half yearly basis. In order to arrive at an overall risk rating, a risk matrix is used based on the impact of the risk and the likelihood of it materialising. Once the risk rating is determined an action plan identifying further mitigating action is put in place.

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

Reporting criteria considerations

Arrangements in place

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities (continued)

The risks identified in the 2022/23 are in line with our expectations of both the Council's and the sector's risks, many of which relate to, the Covid-19 pandemic, and changes in service demand, as well as the rising cost of living expenses. The identification of such risks is clear, and the Council has sufficient arrangements in place to mitigate the impacts of these risks to ensure sustainable delivery of services. Furthermore, the Council have a revenue budget management process in place to support the sustainable delivery of services as well as capital expenditure monitoring reports with financial commitments and business case reviews which are taken to Directors Leadership Team (DLT)/ Senior Leadership Team (SLT). These support sustainable delivery in accordance with strategic and statutory priorities.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The MTFP is under the same directorship as the workforce, capital, investment and operational planning ensuring consistency across the board. The capital strategy incorporates the capital programme and was previously embedded with the investment strategy plan being part of the Treasury Management Strategy (TMS). The Capital Strategy is now separate and just goes to Council. From 2022/23 the Capital MTFP was merged into the main MTFP report. the TMS is presented to Audit Committee Economy & Resources Scrutiny, Cabinet & Council to be scrutinised by Members. The main MTFP is presented to cabinet and Council. The MTFP, Capital Strategy & TMS are interlinked, and all approved by Council at the same time. Finance & Legal sign of all reports after the Director/Assistant Director. Chief Officers Board (COB) which consists of all the assistant directors of the Council meet on a weekly basis and all above plans will be discussed as appropriate to ensure consistency and that they are all fit for purpose and agree with the Council's vision. The management team of the Council that consists of all the Directors also meets independently of COB to discuss the strategic direction of the Council. The Director of Operations has regular scheduled meetings with other Directors of Resources in the Tees Valley where common aims are discussed and agreed and to share best practice ensuring some form of consistency across the Tees Valley. The Assistant Director of Resources also meets with their Tees Valley counterparts which helps to enforce and support sharing best practice and consistency. There are also lots of meetings with other external counterparties across the services, e.g. Tees Valley Chief Accountants group and a regional HR group. All of these help to ensure financial plans are consistent with other plans where relevant.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The Council has a (costed) risk reserve of £5.35m that identifies potential changes in demand, again as the Council does continual budget management any changes or inherent risks are identified at an early stage so that appropriate action can be taken and to ensure that any risks identified can be built into future plans.

Appendix A - Summary of arrangements

Governance

We set out below the arrangements for the governance criteria covering the year 2022/23.

Reporting criteria considerations

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

Arrangements in place

The Council has a comprehensive risk register that is facilitated by the Complaints and information Governance Manager who liaises with all Groups and produces a Corporate risk register as well as individual group matrices - the results are presented to Audit Committee on a half yearly basis with the Risk Management strategy going to Cabinet. The Council has an Internal Audit Section (a shared service with Stockton Borough Council) that has a comprehensive risk-based audit approach to all of the services in Darlington, this includes an Audit dashboard where each AD and Director can access the audit results in their areas. Internal audit present these results with results to Audit committee on a quarterly basis.

The council also have policies to protects against fraud, e.g. whistleblowing and adopt the Academy 10 training units which all staff are required to undertake. Compliance with Academy 10 is also reported to AD's for action.

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

The Council starts its budget setting cycle early (July) with Finance officers liaising with service managers and reviewing the previous year's performance as well as the current MTFP budgets before identifying any potential changes to services. A set of guidance notes is produced by corporate finance to ensure a consistent approach. Any changes to services are identified early so that COE can review them to ascertain their validity. Each service group works to an agreed resource allocation envelope that is part of the MTFP process that identifies resources to fund the MTFP. The draft MTFP for the next 4 years is presented to Cabinet in December to allow a consultation period with the public/relevant stakeholders etc until it is brought back to Cabinet in February before going to Full council in February for approval and subsequent implementation. The continuous RBM that the Council carries out also contributes to the budget cycle as most pressures/savings or potential amendments to the MTFP will be identified at an early stage. Cabinet are also kept in the loop regarding the MTFP before the formal report goes to Cabinet.

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

Reporting criteria considerations

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

Arrangements in place

The Council does continuous budget management with the aid of an electronic budget management system (FMS) that automatically sends out budget management reports on spend/budget/commitments etc. every month on email to each budget holder. This is completed by the budget manager with support from the finance team. The completed sheets are loaded back into the FMS to allow relevant reports to be produced. The Council works on a risk basis with high-risk areas receiving financial advice on a monthly basis and low risk areas every 3 months, with an Outturn report taken at end of year (June/July). The results of the budget management process are presented to COE/Chief Officer's Board (COB) and AD's have monthly briefings with the relevant portfolio holder to update them of the financial situation. These reports are also on the Agenda of Economy & Resources Scrutiny Committee every quarter who scrutinise the budget position and pass comments on to Cabinet. The reports then go to Cabinet every quarter to enable Members to analyse the ongoing financial situation. Budget managers have responsibility in their job descriptions and will discuss their budgets with their manager/AD etc.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

The Audit Committee meet on a quarterly basis to review and challenge the Council's governance, audit and treasury management activities and policies. Audit committee will also review and challenge the Council's Annual Statement of Accounts. The Council recognises that in order to fulfil its purpose and deliver the intended outcomes for its citizens and service users it needs to have in place comprehensive arrangements for corporate governance and accountability designed to ensure that it operates in an effective, efficient and ethical manner. The Council has a wide range of HR policies covering expectations and requirements of staff. These are categorised into a number of themes, for example policies relating to the conduct of individuals (e.g. anti-fraud, bullying, whistleblowing policies etc.). Failure to adhere to these policies can result in disciplinary procedures against individuals. The Council also has a scheme of delegation for decision making. Matters are considered by management teams (DLT/SLT) and by COE/COB. The Constitution shows the reporting cycle. Finance provide assistance/advice (as well as legal, procurement etc) on all Cabinet reports to ensure members have all the information needed for the decision.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

The Council has policies on these areas that everybody is required to read and acknowledge, with relevant statistics produced and reported to Audit Committee on a regular basis as well as the results of any said action taken if the standards haven't been met (report by Monitoring Officer).

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23.

Reporting criteria considerations	Arrangements in place
How financial and performance information has been used to assess performance to identify areas for improvement	Council does benchmarking with other local authorities within Tees Valley area to ensure that we are not an outlier in terms of performance - they still strive to keep costs at an acceptable level. In setting the budget they use statistical data to ensure costs are correctly identified. Performance improvements are reported through Scrutiny Committees and there is a performance clinic held with AD's/Directors. Performance teams review performance with managements.
How the body evaluates the services it provides to assess performance and identify areas for improvement	The Council is constantly striving to improve their services by embracing and identifying best practice. The Council have also peer reviews to help identify direction of travel and where appropriate work with strategic partners to help identify areas for improvement. Performance teams review performance with managements. We are also externally inspected by Ofsted and work with regional and tees valley groups such as the Tees Valley Director of Resources group to monitor and benchmark our performance and identify areas for improvement
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	The Council have a partnership tool kit that identifies the significant partners of the Council to ensure that adequate governance arrangements are in place, and this is reported to Audit Committee annually. There are also annual reviews of significant partnerships led by the Darlington Partnership Director based upon the completion of an annual review form and provision of evidence demonstrating the governance arrangements have been adhered to. The report to Audit Committee provides evidence on performance and that governance arrangements in place are being adhered to. The toolkit also allows for identification of high-level concerns of the significant partnership which can therefore be monitored closely. As above quarterly financial reports (both revenue and capital) are taken to Cabinet to allow them to monitor the financial situation of the Council and take any action as appropriate. The annual MTFP is presented to Cabinet every December and recommended for consultation with stakeholders, the public and scrutiny committees before the final report is presented to Special Council in the following February (after taking account of any constructive feedback). The council also consult on other potential service changes which may not be included within the MTFP
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	The Council has a dedicated Procurement section and a well-established process to ensure that all contracts (over the de minimis limit of £10k) follow the recognised procedure of going to Procurement Board (with AD's) to be agreed. There is also a flag on the FMS (Agresso) that gives a warning to the Procurement section of any invoice over the £10k limit that has not had Procurement Board approval. The contracts register is published on the website and is periodically updated. Procurement also analyse the spend of the Council on a continuous basis to ensure consistency and identify anomalies. The Council also has a set of Contract procedure Rules (issued in accordance with s135 of the Local Government Act 1972) which are intended to promote good purchasing practice and public accountability, deter corruption and assure value for money is obtained in the use of public funds. Officers responsible for purchasing or disposal must comply with these contract procedure rules. Procurement also provide an annual list of contract up for renewal and these are agreed by Cabinet. Procurement also provide advice to managers on procurement related matters

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ED None

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**AUDIT COMMITTEE
22 JULY 2024**

ANNUAL REVIEW OF SIGNIFICANT PARTNERSHIPS 2023 - 2024

SUMMARY REPORT

Purpose of the Report

1. To present the outcome of the annual review of significant partnerships to enable the Audit Committee to consider the partnerships that the Council is involved with and to ensure that they have adequate governance arrangements in place.

Summary

2. Through the principles of the partnership toolkit, Darlington Borough Council (DBC) has established an approach to monitoring the significant partnerships it is involved with. As a result there are good governance arrangements in place for these partnerships. The toolkit has been effective in identifying high level concerns of the significant partnerships.

Recommendation

3. It is recommended that the review of significant partnerships be endorsed and the actions being taken to address outstanding issues be noted.

Reasons

4. The recommendations are supported:-
 - (a) To enhance corporate governance arrangements in significant partnerships;
 - (b) To enhance the relevance and performance of partnerships in Darlington.

**Seth Pearson
Partnerships Director**

Background Papers

- (i) Audit Commission Report – Governing Partnerships – Bridging the Accountability Gap
- (ii) Completed Partnership Toolkit Questionnaires
- (iii) Partnership Working Toolkit Report to Cabinet 20 March 2007
- (iv) Partnership Annual Review Forms – Year Ended 31 March 2024

Seth Pearson: Extension 6090

S17 Crime and Disorder	The Darlington Partnership and Safe and Cohesive Community Group have been key partnerships in ensuring that Safer Darlington is delivered which includes reduction of crime and disorder as a main priority.
Health and Well Being	The Darlington Partnership and the Health and Wellbeing Board have been key partnerships in ensuring that the Health and Wellbeing Strategy is delivered to improve all aspects of the health and well-being of people in Darlington.
Carbon Impact and Climate Change	The Darlington Partnership has been key in ensuring the environmental and economic sustainability of Darlington is assured.
Diversity	The Darlington Partnership have One Darlington as a key priority with an objective of a safe and caring community which supports communities and neighbourhoods to be more cohesive..
Wards Affected	All wards.
Groups Affected	All groups.
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	This is not an urgent decision.
Council Plan	Partnerships support the delivery of the Council Plan
Efficiency	Partnerships that the Council is involved in are reviewed annually to consider outcomes delivered and resources expended.

MAIN REPORT

Information and Analysis

5. Public bodies have responsibilities in respect of their partnership arrangements in that they should for example:-
 - (a) Know the partnership they are involved in and how much money and other resources they invest in them;
 - (b) Take hard decisions to scale down their involvement in partnerships if the costs outweigh the benefits, or if the added risks cannot be managed properly and;
 - (c) Agree and regularly review protocols and governing documents with all partners.
6. In order to demonstrate fulfilment of these responsibilities, Cabinet adopted a partnership toolkit in March 2007 (Min C174/March/07 refers). The toolkit provides a means to record that the performance of each partnership is monitored and that adequate governance arrangements are in place. The toolkit identifies partnerships currently classed as 'significant' in accordance with the definition reported to Cabinet in March 2007.
7. The methodology adopted in Darlington involves the application of the Partnership Toolkit Questionnaire which then informs an action plan to address areas for improvement in governance arrangements. The results of this process form the basis of this report. The lead officers play a key and continuing role in ensuring the good governance of the partnerships. Outstanding actions from last year's review have been addressed or are in hand.

Criteria for a Partnership to be classed as 'Significant'

8. A partnership is determined to be significant if:-
 - (a) DBC has a statutory duty or other government requirement to enter into the partnership; or
 - (b) It is a major contributor towards achieving the Council Plan objectives; or
 - (c) It is a major contributor towards improving the lives of children and young people or older people; or
 - (d) Takes a lead on setting the Council's policy framework; or
 - (e) DBC has the role of accountable body/lead agency and the annual expenditure of the partnership is more than £100,000; or
 - (f) DBC funds the partnership by more than £100,000 annually.
9. The partnerships identified as significant in accordance with this definition for 2023/24 are as follows:-

- (a) 11 - 19 Partnership
 - (b) Creative Darlington
 - (c) Public Sector Executives Group
 - (d) Darlington Safeguarding Partnership
 - (e) Darlington Young People's Engagement and Justice Service
 - (f) Community Safety Partnership
 - (g) Education Strategy Group
10. The Stronger Communities Board had been recognised as a Strategic Partnership and was to be reported on from 1 April 2023. However the Board has not met during 2023/24 and there are no plans for its continuation.
11. The Voluntary and Community Sector Engagement Group is a newly identified Strategic Partnership and will be covered by the governance arrangements from April 2024 forward.

Performance and Governance of Partnerships 2022-23

12. An Annual Review proforma is completed by the relevant Council officer for each partnership. These are used to assess achievements against objectives, identify any areas for improvement or risk. This report gives a summary of specific remedial actions required by each significant partnership to achieve full compliance with the Council's governance requirements. In addition, the reports identify what Council resources, if any, are being used to support the partnerships. These are readily available and published on the intranet.

Issues raised by Partnerships

13. All significant partnerships in Darlington have provided evidence that they are performing well in pursuit of the objectives and that adequate governance arrangements are in place.
14. The Community Safety Partnership quotes a range of threats and risks that it monitors carefully.
15. The chair of the Creative Darlington has reported that demand for funding continually exceeds available resources and is often dependent on lottery funding which is hard to predict which requires careful budget management.
16. Concerns about funding is common across the Strategic Partnerships which they report they monitor closely.

Outcome of Consultation

17. Consultation with the Chairs and Lead Officers of the key partnerships was undertaken in the production of this report.

AUDIT COMMITTEE
22 JULY 2024

ANNUAL RISK MANAGEMENT 2023/24

SUMMARY REPORT

Purpose of the Report

1. To update Members on the approach to and outcomes from the Council's Risk Management processes.

Summary

2. Positive progress continues to be made within the Authority regarding the management of key strategic risks and with the work undertaken by officers to manage operational risks.

Recommendation

3. It is recommended this Risk Management Report be noted.

Reason

4. The recommendation is supported to provide the Audit Committee with evidence to reflect on the Council's approach to Risk Management.

Ian Williams
Chief Executive

Background Papers

- (i) Council's Risk Management Strategy
- (ii) Corporate and Group Risk Registers
- (iii) Half Yearly Risk Management Report to Audit Committee January 2024

Lee Downey: Extension 5451

S17 Crime and Disorder	This report has no implications for crime and disorder
Health and Well Being	There is no specific health and well-being impact
Carbon Impact and Climate Change	There are no specific recommendations contained within the attached reports concerning Carbon Reduction.
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 an executive report
Urgent Decision	This is not an executive report
Council Plan	Maintaining an appropriate oversight of risk will help contribute to the delivery of the Council Plan Objectives
Efficiency	Insurance premiums reflect the pro-active approach taken to risk management within the Council.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

MAIN REPORT

Background

5. Risk Management is an essential part of effective and efficient management and planning and it strengthens the ability of the Council to achieve its objectives and enhance the value of services provided. It is also an important element in demonstrating continuous improvement as well as being part of the Council's Local Code of Corporate Governance that reflects the requirements of the Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives and Senior Managers (CIPFA/SOLACE) Framework of Corporate Governance.

Information and Analysis

Strategic Risk Outcomes

6. A key element of the Council's planning process is that the areas of potential risk, which could adversely impact on the ability to meet objectives set out in the Council plan, are identified together with the officer responsible for managing that risk. These risks are plotted on to a standard likelihood and impact matrix. There is also reference to management controls in place and working. The red part of the matrix signifies the area above the 'risk appetite line'. Risks in this region require further specific management, i.e. they are priorities for improvement that have an appropriate improvement action plan. The green part of the matrix signifies the area below the 'risk appetite line'.
7. Following a review of the Council's Risk Management Strategy, the risks plotted on the matrices are now categorised as Strategic Risks and linked to the relevant objective in the Council Plan, where appropriate. This is to ensure there is a greater focus on managing the risks to the Council delivering the objectives set out in the Council Plan and to ensure more effective management of inter-departmental risks. The revised risk matrices are attached at **Appendices A and B**.
8. All risks are continually managed during the year by Corporate and Departmental Management Teams including any emerging risks identified. In addition, Assistant Directors/Heads of Service are required to confirm in their Annual Managers Assurance Statements (MAS) that processes are in place to ensure that controls identified to support the positioning of risks on the risk matrices are in place and working.
9. The further detailed information contained in Appendix B, provided by appropriate departmental staff, details progress made on improvement actions for those risks identified as above the risk appetite line.

Operational Risk Outcomes

10. The Insurance Group continues to meet representatives of the Council's insurers to examine insurance claims. The insurers provide the group with an update in relation to trends and operational risks to enable continuous improvement to the risk management and health and safety culture within the organisation.
11. Health and Safety continues to be a key priority for the Council at all levels with work continuing to embed a robust health and safety management system and promote a

positive culture. The total number of reports to the HSE, as required by the Reporting of Injuries Diseases and Dangerous Occurrences Regulations (RIDDOR) for 2023/24 is 10. The 10 reportable accidents were four slips, trip or fall, four manual handling, and two contact with sharp object.

12. RIDDOR requires employers to report certain diagnosed reportable diseases. The Council reported one case in 2023/24 a carpal tunnel syndrome diagnosis for an employee working with vibratory equipment.
13. All accidents and ill health reports are investigated by management and the Health & Safety Team to establish the causes, to identify issues or trends and make recommendations to prevent reoccurrence.
14. Two accidents to members of the public were reported under RIDDOR. These were both in a nursery school, one slip, trip or fall and the other hit by an object. Action taken to prevent a recurrence included communication of risk assessments, training in dynamic risk assessment and suitability of equipment.
15. The most common kind of minor accident was once again slip, trip or fall on the same level, followed by manual handling accidents. Targeted work with services continues with a focus on risk assessment reviews, training and monitoring of the work areas and work practices.
16. Near miss reports continues to increase year on year. Good near miss reporting levels are an indication of a positive health and safety culture. Near miss reporting continues to be encouraged, promoting the benefits for accident and ill health prevention.
17. Violence at work remains a risk to Council staff. Services reporting incidents include, social care and housing, and there was also an increase in reports in other areas including school crossing patrol, leisure, and culture.
18. Work has continued to implement measures to reduce the risk of violence including; the use of security; maintaining the employee protection register, promoting and monitoring the use of personal safety devices, with corporate wide use of the devices consistently good. A refreshed internal violence at work training course has been launched covering legislation, Council arrangements, why violence happens and how it can be recognised and de-escalated. Work has also continued to raise awareness of the importance of reporting incidents to help reduce the risk and protect staff.
19. A programme of health and safety audits has continued in 2023/24. In addition to ensuring compliance, the audit process provides information for the assessment of the overall performance and effectiveness of the health and safety management system, identifying areas for improvement. Sixteen services have achieved full assurance (all controls in place and operating effectively, the system will achieve its objectives) with a further twenty seven services receiving substantial assurance (the majority of controls in place and operating effectively although some control improvements required, the system should achieve its objectives). Actions from 'limited' assurance audits (certain important controls inadequate or in place but operating ineffectively) were completed and closed within timescales.

20. It was previously reported that in March 2020 a new Street Works Permit Scheme has been implemented in Darlington. The Permit Scheme requires all works promoters to provide adequate information when they intend to undertake works in the carriageways, footways and verges within the adopted highway to enable us to understand and more easily manage the impact of these essential works on the highway network.
21. The third Annual Report on the scheme is available on the Council’s [website](#). There are no issues highlighted within this report. The “Report It” website for highway & street lighting defects has now received over 7,500 reports since it was introduced in June 2021. An increasing proportion of reports are now coming directly through Report It. In 2022/23, 63% of reports were received via customers inputting details into Report It. In 2023/24, that figure rose to 72%. In November 2023 a new option was added to Report It to allow blocked gullies to be reported via the system.
22. We have continued with the micro-asphalt programme this year to help reduce the number of potholes forming. We continue to carry out highway safety inspections at a suitable frequency to ensure that potholes are identified and repaired as soon as possible. In 2023/24 6,102 potholes were repaired.
23. The work in recent years to convert the street lighting stock to LED lanterns continues to show benefits. As well as the reduction in carbon emissions and electricity costs there has been a decrease in the number of faults reported. Work to convert sign lanterns to LED has now been completed.
24. The 2024/25 maintenance program of works has been published on the Council’s [website](#). This includes looking at using alternative materials which will help to reduce our carbon emissions and prolong the life of some of our roads. A total of 15 schemes will be completed as part of the 2024/25 program of works, including two footways and one back lane. Twenty-six streets are included in this year’s micro-asphalt programme which will comprise approximately 27,000m2.
25. The proactive tree risk management processes continues to provide positive results, enabling the Council to defend the majority of storm and subsidence compensation claims received.
26. In relation to sickness absence, the year end position for days lost was 4.3% or 9.32 days per full time employee (FTE), this represents an improvement of 0.29 days per FTE compared to 2022/23. As can be seen from the table below, from the information we received, although similar, we compare favourably with our neighbours.

Council	Actual Days lost 2022/23	Actual Days lost 2023/24
Darlington	9.61	9.32
Hartlepool	10.65	10.31
Redcar & Cleveland	9.44	9.66
Stockton	10.1	10.8

27. Absence nationally across all sectors is on the rise. The Chartered Institute for Personnel & Development (CIPD) found that the average number of days lost per employee now stands at 7.8 days, this figure was 5.8 days in 2019.

28. The management of sickness absence is a high priority for managers and HR with absence being actively monitored and actions taken appropriate to each case and in accordance with the Absence Management Policy. Actions have included sickness absence review meetings, setting of improvement targets and formal monitoring/reviewing, extensions of probation period, non-confirmation of employment after probationary period, formal caution, redeployment to alternative roles and ill health capability dismissals.
29. Management and HR continue to be supported by a proactive Occupational Health Team. There were 347 occupational health appointments, for each of these appointments the Occupational Health Nurse writes a report, these are professional insights informing managers of progress, and recommending appropriate reasonable adjustments which could be made, including details of phased returns. Cases are escalated to an Occupational Health Doctor for advice as required.
30. As well as sickness absence, the Occupational Health Team also provide proactive health surveillance to monitor and ongoing work risk ensuring our employees can undertake their work without risk to their health. There were 923 surveillance assessments carried out during 2023/24.
31. Together with the reactive measures above, we have also continued to promote proactive, preventative initiatives such as Counselling, Physiotherapy, Stress Risk Assessments, Flu jabs and offered various courses and sessions around resilience and mental health. We delivered 370 flu jabs to Council employees.
32. We have a number of new initiatives which we plan to roll out during 2024, including Occupational Health referrals to the Dolphin Centre, refresh and relaunch of the Menopause Policy, further wellness campaigns and continued promotion of our wellness forum.

Conclusion

33. The Council's pro-active approach to risk management continues to produce positive results for the Authority.

Outcome of Consultation

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

COUNCIL PLAN OBJECTIVES

APPENDIX A

Council Plan Priorities	Strategic Risk(s) relevant to delivery of Council Plan Priorities
CP1 - A strong sustainable economy and highly skilled workforce with opportunities for all.	Those above the 'risk appetite line' – SR34, SR35, SR48
	Those below the 'risk appetite line' – SR1, SR8, SR10, SR13, SR14, SR22, SR23, SR24, SR33, SR36, SR39, SR40, SR41, SR47
CP2 - Affordable and secure homes that meet the current and future needs of residents.	Those above the 'risk appetite line' – SR15, SR48
	Those below the 'risk appetite line' – SR28, SR39,SR45
CP3 - A healthier and better quality of life for longer, supporting those who need it most.	Those above the 'risk appetite line' – , SR20, , SR44, SR48,SR51
	Those below the 'risk appetite line' – SR18, SR22, SR23, SR24, SR26, SR28, SR29, SR42, SR43, , SR46, SR52
CP4 - Best start in life, realising potential and raising aspirations.	Those above the 'risk appetite line' - SR16, SR21, SR27, SR48
	Those below the 'risk appetite line' – SR17, SR19, SR23, SR31, SR38, SR47, SR49
CP5 - Healthier, safer and more engaged communities.	Those above the 'risk appetite line' - SR16, SR21, SR27, SR48, SR51
	Those below the 'risk appetite line' – SR17, SR37, SR47
CP6 - A well-connected, clean and sustainable borough.	Those above the 'risk appetite line' - SR35, SR48
	Those below the 'risk appetite line' – SR36, SR40, SR47

RISK MATRIX



APPENDIX B


STRATEGIC RISK REGISTER




LIKELIHOOD	A Very High				
	B High		SR50	SR21, SR48	
	C Significant		SR11, SR13, SR41, SR45	SR15, SR16, SR20, SR34, SR35, SR44, SR51	
	D Low		SR12, SR52	SR3, SR6, SR7, SR8, SR10, SR14, SR17, SR18, SR19, SR22, SR23, SR24, SR25, SR26, SR31, SR36, SR37, SR38, SR39, SR40, SR42, SR46, SR49, SR53	SR27
	E Very Low		SR1	SR33	SR47
	F Almost Impossible				
		IV Negligible	III Marginal	II Critical	I Catastrophic
IMPACT					



STRATEGIC RISK REGISTER


Risks above the appetite Line


Risk No. & relevant Council Plan objective(s)	Risk / Responsible Person	Likelihood / Impact = Position on Matrix	Movement in Period	Progress on Action Plan for Risks Above the Appetite Line
<p>SR15 (CP2)</p>	<p>Inability to cope with significant increase in homelessness cases / Anthony Sandys</p>	<p>C – Significant / II – Critical = C/II</p>	<p>No movement</p> 	<p>Additional funding has been provided by the Department for Levelling Up, Housing and Communities (DLUHC) for homeless services. More accommodation and support has been commissioned to cope with increased demand and additional staff have been recruited to the Housing Options Team. However, demand for emergency accommodation has remained high with the shortage of appropriate move on accommodation exacerbating the issue. A new Preventing Homelessness and Rough Sleeping Strategy will be developed in 2024/25 to address these issues.</p>
<p>SR16 (CP4, CP5)</p>	<p>Inability to contain placement costs for children looked after due to lack of sufficient in house placements / Chris Bell</p>	<p>C – Significant / II – Critical = C/II</p>	<p>No movement</p> 	<p>A new Placement Sufficiency Strategy has been developed with the aim of increasing the number of in house foster care and residential placements. Whilst this strategy is being implemented there remain significant challenges.</p>


<p>SR20 (CP3)</p>	<p>Increased demand for Adult Services impacts negatively on plans for budget efficiencies / Joss Harbron</p>	<p>C – Significant / II – Critical = C/II</p>	<p>No movement</p> 	<p>There is increasing demand for adult social care and support specifically domiciliary care, aides, adaptations and support for people with significant learning disabilities. People are living with multiple conditions and disabilities and require intensive support to remain at home and as independent as possible. Covid has also had a significant impact on people’s wellbeing and support needs. Adult Social Care will continue with the Transformation Programme and ensure that all assessments are strength based and outcome focussed with the support of the local community. Performance, practice and quality will be continuously monitored and reviewed to ensure we reduce, delay and prevent people from requiring care and support prematurely. Funding streams and grants from the Department of Health & Social Care will support the demand management and provide some temporary cost mitigation.</p> <p>The increased demands in adult social care has resulted in waiting lists for reviews and assessments. These are mitigated by a risk management matrix to prioritise people with high needs or significant carer issues. With support from the Department of Health and Social Care (DHSC) social discharge fund we have increased workforce capacity through agency, additional hours and fixed term contracts to manage demand, however this is currently short-term funding. We continue to monitor demand vs capacity. These are raised within the Darlington Local Oversight Group and explore utilisation of current funding arrangements e.g. BCF.</p> <p>Due to recent High Court rulings on Ordinary Resident cases there is a risk to the Council for financial liability for people under this new rule. Adult Services have identified the current cases and are working with the relevant local authorities to agree responsibilities.</p> <p>As part of the transition to adulthood we are working with Children’s Services on a number of significant high cost packages of care – with</p>
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				primary aim of providing appropriate support within the available resources and less restrictive option for the individual.
SR21 (CP4, CP5)	Increased demand for Children's Services impacts negatively on budget / Chris Bell	B -High / II - Critical = B/II	No movement 	Children's Services has a well established Strengthening Families Plan which is focused on effective management of demand for Children's Services Support. Quarterly Key Performance Indicators linked to the plan are reported to Children's and Young People's Children's Scrutiny Committee.
SR27 (CP4, CP5)	Failure to respond appropriately to safeguard vulnerable children, in line with national legislation and safeguarding children, thresholds and procedures / Chris Bell	D – Low / I – Catastrophic = D/I	No movement 	Services are in place to screen contacts and referrals, and to respond should concerns be identified. Pathways for intervention are both internal and multi-agency, and the Council ensures that its own staff understand and apply them robustly.
SR34 (CP1)	Budget and resource implications arising from the ability to progress and complete schemes/projects in the event of further construction inflation, material supply and resource demands / Ant Hewitt	C – Significant / II – Critical = C/II	No movement 	Whilst inflation within the construction industry has softened, material prices remain high and demand for trades and resource to deliver projects of all sizes remains an issue. These issues are across all sectors, both private and public. Projects developed prior to these issues materialising may not have built in contingencies into the budget or programme to absorb this. Therefore, this will require Programmes & Projects to be reviewed on an individual basis for affordability and deliverability as costs and programmes are finalised. Future project budgets will have inflation allowance built in linked to the proposed start and finish dates. It is anticipated that as inflation reduces so too will the level of risk.




<p>SR35 (CP1, CP6)</p>	<p>Potential impact on public transport networks if commercial services do not recover or continue to receive support from Government and routes are withdrawn / Ant Hewitt</p>	<p>C – Significant / II – Critical = C/II</p>	<p>No movement</p> 	<p>Bus patronage suffered significantly through the pandemic and post covid passenger numbers have not recovered to previous levels, putting the viability of commercial services at risk. Additional Government funding has been made available to Tees Valley Combined Authority (TVCA) as the Transport Authority to support services at risk and this has been used to secure a number of services in Darlington. However, this funding is time limited and we are working with TVCA and operators to understand how we can support the network.</p>
<p>SR44 (CP3)</p>	<p>April 2023 saw the implementation of the CQC inspection framework for Adult Social Care. The significant demands on adult social care, the pressures following Covid and the workforce recruitment and retention issues may impact on the ratings resulting in a “requiring improvement” outcome / Joss Harbron</p>	<p>C – Significant / II – Critical = C/II</p>	<p>No movement</p> 	<p>Adult Services have an implementation plan in place, containing identified actions to complete including, user feedback and engagement, evidence of quality of practice and outcomes and strategic leadership and engagement. An annual self assessment is in draft, and staff are being prepared for inspection readiness. CQC requested the Local Authority Information Return (LAR) on 24/06/2024, which must be submitted by 15/07/2024. We anticipate the inspection will likely commence in September 2024.</p>





<p>SR48 (CP1, CP2, CP3, CP4, CP5 & CP6)</p>	<p>Budget pressures, lack of funding and affordability of services impact on the Council's ability to deliver its Council Plan objectives / Elizabeth Davison/Brett Nielsen</p>	<p>B – High / II – critical = B/II</p>	<p>No movement</p> 	<p>The Council is facing unparalleled financial challenges stemming from a reductions in public funding and increases in demand. This has been further compounded by the current economic climate, the increase in the cost of living, income deprivation and poverty rising. There are a number of existing risks built in the risk matrix concerning demand (e.g. Children's and Adult services), inflationary pressures (capital) and reduced income. A shortfall in funding to cover rising demand and cost of service provision is now impacting on all service areas and with limited discretionary service provision, without additional funding there is a high likelihood the Council will not be able to meet it statutory duties in their current form in the future. As part of MTFP planning the Council is facing these challenges, however with each increase in demand and reduction in Government funding this risk is becoming higher.</p> <p>Savings of £4m per year have been agreed in the 2024/25 MTFP which do not significantly impact on front line services and a 4.99% increase in Council Tax and social care precept for 2024/25 was approved to generate circa. £3.1m across the life of the MTFP. Economic growth remains a key focus to generate additional income and work is being undertaken to review all service areas, including cost challenge and best practice comparisons. Work is ongoing within service departments to identify savings, efficiencies and different ways of providing services.</p>
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<p>SR50</p>	<p>New Risk Modified opinion in relation to 2022/23 accounts /Brett Nielsen</p>	<p>B – High /III - Marginal = B/III</p>	<p>New Risk</p> <p style="text-align: center;"></p>	<p>Due to national delays in the completion of the audit of accounts, the Department for Levelling Up, Housing and Communities, the National Audit Office and the Chartered Institute of Public Accounts, have proposed a solution to bring all accounts back on track by clearing all historic unaudited statements of account by 30th September 2024, the backstop arrangement. These proposals were consulted upon in February the outcome of which is as yet unpublished.</p> <p>Darlington’s statement of accounts for 2022/23 are currently in the process of been audited, however in line with the proposed backstop arrangements our auditors are initially focusing on the VFM areas of work which is the priority area outlined in the backstop arrangement that must be completed.</p> <p>Any Council that does not have a full audit undertaken by 30th September will be issued with a modified opinion, which whilst this is not a qualified set of accounts, the auditors can also not provide full assurance.</p> <p>It is likely that Darlington will be issued with a modified opinion, which could potentially have so impact on the council’s reputation. As the outcome of the consultation is unknown, it has as yet not been fully defined what the definition will be with regard to a modified opinion.</p>
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<p>SR51 (SR3, SR5)</p>	<p>New Risk Additional funding for preventing harm from substance misuse may not continue beyond March 2025 / Lorraine Hughes</p>	<p>C – Significant / II – Critical = C/II</p>	<p>New Risk</p> <p style="text-align: center;"></p>	<p>Local authorities across England received additional government funding for 3 years (to end of March 2025) to improve drug and alcohol addiction treatment and recovery, in line with the national drug strategy From Harm to Hope. This equates to £1,000,006 for Darlington in 2024/25. It is not yet known if funding will continue from April 2025, or the level of funding which will be in place if it does continue. This presents a risk of destabilising the current workforce, who will likely be seeking alternative employment if the funding position remains uncertain, which would impact on service capacity in-year. It would also increase the risk of there being unmet need going forward. Regionally and nationally public health are advocating for a timely decision on future funding for the national 10 year drug strategy, and highlighting the risks to the workforce and those accessing treatment for drug and alcohol addiction the later a funding announcement is made. A decommissioning plan (exit strategy) will be developed, to ensure that in the eventuality of the additional funding being reduced or no longer available the baseline resource from the core public health grant allocation is utilised effectively to commission a model of service which is evidence based, builds on the experience gained over the last 3 years and can continue to support a high number of service users.</p>
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Remainder of Strategic Risks






Risk No. & relevant Council Plan objective(s)	Risk / Responsible Person	Likelihood / Impact = Position on Matrix	Movement in Period	Reason for Movement on Matrix
<p>SR1 (CP1)</p>	<p>Implementation of recommendations from the Capital Process Review is needed to improve effective capital project management / Ant Hewitt</p>	<p>E - Very Low / III – Marginal = E/III</p>	<p>No movement </p>	
<p>SR3</p>	<p>Business Continuity Plans not in place or tested for key critical services / Mark Ladyman</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	
<p>SR6</p>	<p>Risk of regulatory action and increased costs resulting from PCI-DSS Non-Compliance / Elizabeth Davison</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	

<p>SR7</p>	<p>Financial implications of maintaining and conserving key corporate assets within the borough / Dave Winstanley</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	
<p>SR8 (CP1)</p>	<p>Investment in regeneration projects is not delivered / Ian Williams</p>	<p>D - Low / II - Critical = D/II</p>	<p>Reduced </p>	<p>The Construction industry has been through quite a price volatile period with significant rises in material prices, high demand for trades and resource to deliver projects of all sizes. These issues are across all sectors, both private and public. There has been some easing of the pressure recently with inflation falling back and private sector projects in Darlington are proceeding as planned. Darlington Borough Council projects developed still require tight programmes & project management and are reviewed on an individual basis for affordability and deliverability as costs and programmes are finalised.</p> <p>Future project budgets reflect inflationary and contingency allowance and where we can we explore additional sources of external funding e.g., Government grants and more effective partnership working to share the risk.</p>
<p>SR10 (CP1)</p>	<p>Planning Performance at risk of Standards Authority intervention / Dave Coates</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	
<p>SR11</p>	<p>VAT partial exemption breach due to exempt VAT being close to the 5% limit / Brett Nielsen</p>	<p>C – Significant / III – Marginal = C/III</p>	<p>No movement </p>	




<p>SR12</p>	<p>Fraud in General / Andrew Barber</p>	<p>D - Low / III – Marginal = D/III</p>	<p>No movement </p>	
<p>SR13 (CP1)</p>	<p>Instability within financial markets adversely impacts on finance costs and investments / Brett Nielsen</p>	<p>C – Signifiant / III – Marginal = C/III</p>	<p>No movement </p>	
<p>SR14 (CP1)</p>	<p>Financial pressures to the General Fund as a result of increased levels of unemployment and increased Council Tax Support claims / Anthony Sandys</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	
<p>SR17 (CP4, CP5)</p>	<p>Inability to recruit and retain sufficient qualified suitably experienced social workers in Children’s Services impacts on cost and quality of service / Chris Bell</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	


<p>SR18 (CP3)</p>	<p>Inability to recruit and retain sufficient qualified suitably experienced social workers and reablement staff in Adult Services impacts on cost and quality of service / Joss Harbron</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	
<p>SR19 (CP4)</p>	<p>Failure to identify vulnerable schools and broker appropriate support to address needs / Tony Murphy</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	
<p>SR22 (CP1, CP3)</p>	<p>Market (Domiciliary Care Residential Care providers) failure following the Care Act/Living Wage / Christine Sheilds</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	
<p>SR23 (CP1, CP3, CP4)</p>	<p>Market (Domiciliary Care Residential Care providers) for Vulnerable Families with Children (including SEND) experiences provider failure / Christine Shields</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	

<p>SR24 (CP1, CP3)</p>	<p>Market (Domiciliary Care Residential Care providers) failure as a result of increased transmissibility of new Covid variants and other viruses / Christine Shields</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	
<p>SR25</p>	<p>The Deprivation of Liberty Safeguards Threshold changes significantly increases the amount of people deprived of their liberty resulting in potential for increased legal challenge / Joss Harbron</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	
<p>SR26 (CP3)</p>	<p>Failure to respond appropriately to safeguard vulnerable adults, in line with national legislation and safeguarding adults procedures / Joss Harbron</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	
<p>SR31 (CP4)</p>	<p>Failure to maintain dedicated home to school transport services / Tony Murphy</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	

<p>SR33 (CP1)</p>	<p>Impact of national cost of living crisis on customers and audiences for Leisure and Cultural facilities / Ian Thompson</p>	<p>E – Very Low / II - Critical = E/II</p>	<p>Reduced </p>	<p>Income and attendance levels are monitored which has allowed the risk level to be reduced.</p>
<p>SR36 (CP1, CP6)</p>	<p>Failure to meet the Council’s commitment to becoming Carbon neutral by 2040 / Mark Ladyman</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	
<p>SR37 (CP5)</p>	<p>Failure to operate an effective Channel Panel / Dave Winstanley</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	
<p>SR38 (CP4)</p>	<p>Reputational and regulatory risk if reinspection not successful / Tony Murphy</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	
<p>SR39 (CP1, CP2)</p>	<p>The Council is unable to deliver housing targets detailed in the Local Plan as a result of the designation of nutrient neutrality catchment area / Mark Ladyman</p>	<p>D - Low / II - Critical = D/II</p>	<p>Reduced </p>	<p>New guidance from Natural England now shared with developers which has increased confidence in the construction industry.</p>

<p>SR40 (CP1, CP6)</p>	<p>Managing the impact of severe weather events / Mark Ladyman/Ian Thompson</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	
<p>SR41 (CP1)</p>	<p>Staffing risk – failure to recruit to vacant posts / Brett Nielsen</p>	<p>C – Signifiant / III – Marginal = C/III</p>	<p>No movement </p>	
<p>SR42 (CP3)</p>	<p>Risk of enforcement action from the ICO in relation to subject access requests (SARs) / Luke Swinhoe</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	
<p>SR45 (CP2)</p>	<p>Risk reworded Increase in Asylum Seeker numbers in Darlington as a result of the Government’s full dispersal plan that have seen numbers double in the last year and the impact on services / Anthony Sandys</p>	<p>C – Signifiant / III – Marginal = C/III</p>	<p>No movement </p>	
<p>SR46 (CP3)</p>	<p>Adult social care waiting lists / Joss Harbron</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	

<p>SR47 (CP1, CP4, CP5, CP6)</p>	<p>Risk Re-worded Failure to prepare for a significant event within the borough, for example, a terrorist attack, power outage or issue affecting fresh water / Dave Winstanley/Mark Ladyman</p>	<p>E – Very Low / I – Catastrophic = E/I</p>	<p>No movement </p>	
<p>SR49 (CP4)</p>	<p>Failure to keep to the terms of the Safety Valve Agreement to manage deficit in High Needs Budget / Tony Murphy</p>	<p>D - Low / II - Critical = D/II</p>	<p>No movement </p>	
<p>SR52 (CP3)</p>	<p>New Risk Additional funding for stop smoking services and support available for the financial year 2024/25, with ambitious targets for smoking quits. Funding is only confirmed for year 1 / Lorraine Hughes</p>	<p>D - Low / III - Marginal = D/III</p>	<p>New </p>	<p>This has been added to the risk register as whilst funding has been announced for the next 5 years, starting in 2024/25, funding for subsequent years will be subject to spending review settlements. There are ambitious targets linked to funding over the 5 year period, although year 1 is not included (linked to targets) as it is recognised time will be needed to commission and upscale the local offer and generate demand for stop smoking support. Good progress will need to be made in year 1 in order to be able to achieve across the 5 years, if funding continues.</p>

SR53	New Risk Additional challenges introduced by the implementation of the Procurement Act 2023 / Luke Swinhoe	D - Low / II - Critical = D/II	New 	The Act introduces new requirements on public sector bodies and is due to commence on 28 October 2024. All Council services will need to do earlier procurement planning to ensure full compliance with transparency obligations.
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AUDIT COMMITTEE
22 JULY 2024

MANAGERS' ASSURANCE STATEMENTS

SUMMARY REPORT

Purpose of the Report

1. To report outcomes from the completed 2023/24 Managers' Assurance Statements (MAS).

Summary

2. The report emphasises that MAS are a key element of the Council's corporate governance arrangements and based on the 2023/24 returns concludes that a reasonably thorough review has been undertaken and generally an overall positive position was identified. A number of common improvement themes were highlighted in the 2023/24 MAS, along with a number of improvements to process/controls and proposed actions being identified. These matters are to be progressed by Assistant Directors during 2024/25.

Recommendation

3. It is recommended that the contents of the report be noted.

Reason

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

Elizabeth Davison
Group Director of Operations

Background Papers

Managers' Assurance Statements 2023/24

Lee Downey: Extension 5451

S17 Crime and Disorder	The MAS includes reference to the need for staff to be aware of and understand the requirements of the Council's Anti-Fraud and Corruption arrangements.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact and Climate Change	There are no specific recommendations contained within the attached reports concerning Carbon Reduction.
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.
Council Plan	Maintaining a system of sound internal controls and risk management processes will help contribute to the delivery of the Council Plan Objectives
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	There are no specific recommendations contained within the attached reports concerning Looked After Children and Care Leavers.

MAIN REPORT

Information and Analysis

5. Annual MAS are a key element of the Council's corporate governance arrangements and an integral part of the framework that supports the production of the Annual Governance Statement (AGS).
6. MAS have been formally completed for a number of years and this Committee has previously received reports on the outcomes that depicted a largely positive position.
7. The MAS takes the form of a standard template covering the key aspects of the Council's internal control environment on which assurance is required. This coverage is wide ranging and includes risk and financial management, health and safety, information governance and HR arrangements. In providing this assurance the MAS also states that *'the system of internal controls is designed to manage rather than eliminate the risk of failure to achieve objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness'*.
8. Statements have been completed by all Assistant Directors or Heads of Service and endorsed by the appropriate Director, covering their areas of responsibility in 2023/24. They are published on the [intranet](#) and are available on request.
9. A number of improvements to process/controls and proposed actions were identified. Examples include:

Adult Services

- Ensure all managers including those new to the service have attended the appropriate training in relation to the Council's risk management methodology.
- Fortnightly SLT meetings, with risk scenarios managed through work plan and forward plan.
- Practice Clinics are ongoing - changing to reflect the care reforms and CQC assurance framework requirements.
- CQC assurance framework to introduced in April 2023.
- Monthly meetings with Assistant Director and Finance Officer for high-level discussions and actions. The Medium Term Financial Plan (MTFP) focus group to deep dive specific financial pressures, analysis of expenditure, pressures and trends is now reflected in a wider transformation plan.
- Senior Leadership Team (SLT) to ensure all staff have undertaken the equalities training. Majority have staff have completed this - however ongoing learning required for new starters and returners to work.

Children's Services

- Refresh staff knowledge and understanding of the Council's risk management methodology.

Community Services

- Procurement - training once new regulations and Council procedures come into force later this year.

- Equalities - Corporate training to be delivered to all staff.
- Inventories to be updated by March 2025.

Housing and Revenues

- Undertake reviews and testing of Business Continuity Plans in 2024/25.
- Health and Safety - Team Leaders to monitor monthly lone working usage reports.
- Reviews of Health and Safety risk assessments due in 2024/25.
- Procurement - Staff to receive training on the new Procurement Act.

Human Resources and Health and Safety

- Risk Management - Refresh staff of Council's risk management methodology.
- Risk Management, to be added to monthly HR & H&S SLT meetings.
- Refresh/Testing of Business Continuity Plan (BCP) by December 2024.
- Financial Procedure rules under review within the constitution / Revised rules to be communicated to all staff.
- Corruption and Fraud information to be shared at SLT and forwarded to all team members/on the Team meeting.
- Refresh role and responsibilities of the Monitoring Officer and Section 151 Officer to all team members following the changes to the constitution.
- Information Management - All team members to have refresh by December 2024.
- Refresh following introduction of the Procurement Act/changes to the constitution.

Law and Governance

- Periodic testing of Business Continuity Plans for priority services.

Public Health

- Expenditure plans and returns relating to additional supplementary grants reviewed by Public Health Senior Leadership Team (SLT) annually.
- Establish Service Level Agreements' (SLAs) for public health investment which include public health outcomes.
- Staff will need to be updated about the impending changes to procurement regulations and ways of working.

Resources

- Refresh staff of Council's risk management methodology.
- Risk Management added to monthly Finance Senior Leadership Team (SLT) as a standard item.
- Business Continuity Plans (BCPs) reviewed during the year.
- Financial Procedure rules under review within the constitution / Revised rules to be communicated to all staff.
- Corruption and Fraud information to be shared at Senior Leadership Team (SLT) and forwarded to all team members/on the Team meeting.

Strategy Performance and Communications

- Risk Management - Reminder to team managers via Management Team meeting.
- Review and test Business Continuity Plans (BCPs) in line with agreed schedule.
- Finance and Financial Management - Remind managers via Management Team meeting.

- Anti-Fraud and Corruption Arrangements - Monitor for staff who need to update their AC10 training module. Monitored via management meetings.
- Officers within the team who have contract management responsibilities to be briefed on procurement act changes.

Transport and Capital Projects

- Develop Business Continuity Plan (BCP) and test regularly for identified priority service areas.
 - Finance and Financial Management - Process to ensure fee income associated with CRSTS programme is received in a timely manner is needed. Process to be agreed with TVCA during 2024/25.
 - Information Management - Review ongoing and requires completion 2024/25.
 - Equalities - Ensure all staff have completed training as appropriate.
10. The need to raise awareness/refresh knowledge of the Council's Risk Management Strategy and Anti-Fraud and Corruption Arrangements; review and test Business Continuity Plans (BCPs); ensure officers have completed mandatory training, including equalities training; and raise awareness of the changes to be introduced by the Procurement Act 2018 were all common improvement themes highlighted in the 2023/24 MAS.

Conclusion

11. Generally the review of the 2023/24 MAS has identified an overall positive position. Those improvements to process/controls and proposed actions which require further work are to be progressed by Assistant Directors during 2024/25.

Outcome of Consultation

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

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AUDIT COMMITTEE
22 JULY 2024

AUDIT SERVICES AUDIT WORK 2023/24 – ANNUAL REPORT

SUMMARY REPORT

Purpose of the Report

1. To provide Members with the annual report of the testing undertaken in the previous 12 months in accordance with Audit Services' role and terms of reference.

Summary

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

Recommendation

4. It is recommended that the annual report of the results of testing during the previous 12 months and the overall opinion statement be noted.

Reasons

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

Andrew Barber
Assurance Manager

Background Papers

- (i) Internal Audit Charter
- (ii) Results of Audit Testing

Andrew Barber: Extension 156176

S17 Crime and Disorder	Other than any special investigation work there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact and Climate Change	There 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.
Council Plan	Maintaining an appropriate oversight of risk & controls will help contribute to the delivery of the Council Plan Objectives
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Information and Analysis

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.
8. As members are aware audit work is planned on a quarterly basis and is effectively a rolling programme of testing. Any work not completed at the end of the quarter is rolled forward into the next quarter. However, to ensure sufficient work is completed to be able to provide an overall opinion on the control environment a minimum level of coverage is identified. This takes into account the priority rating for each test. For the period July 2023 to June 2024 the minimum level of coverage has been calculated at 300, the actual number of controls tested was 303, meaning sufficient work has been completed to enable an overall opinion to be provided.
9. In line with good practice, at an appropriate time, Audit Services follow up with Managers progress on implementation of audit recommendations agreed in audit reports.
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.

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DARLINGTON

Borough Council



Internal Audit Annual Report

Annual Report and Head of Audit Opinion Statement 2023/2024

Section 1 Executive Summary

Background and Overall Opinion Statement

Introduction

Under the Accounts and Audit Regulations 2015, the Council is required to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. For the purposes of the 2023/24 opinion the standards for proper practices for internal audit are laid down in the CIPFA Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (PSIAS).

The relevant body must conduct a review, at least once a year, of the effectiveness of its system of internal control and this is reported in the Annual Governance Statement. The opinions given in this report provides independent and objective assurance on the overall adequacy and effectiveness of the Council’s system of internal control and should be used to inform the preparation of the Annual Governance Statement.

It is management’s responsibility to establish and maintain appropriate risk management processes, internal control systems, accounting records and governance arrangements. Internal Audit plays a vital role in advising management that these arrangements are in place and operating properly.

Overall Opinion Statement

As the Head of Internal Audit, I am required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment. In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes. In assessing the level of assurance to be given, I based my opinion on:

- The findings from all internal audit work and the subsequent ratings;
- Any follow up exercises undertaken;
- The proportion of Darlington Borough Council’s audit need that has been covered within this period;
- Where weaknesses have been identified through internal audit work, we have worked with management to agree appropriate corrective actions and a timescale for introduction;
- Any limitations which may have been placed on the scope of Internal Audit. (There have been no operational constraints placed upon Internal Audit, apart from agreed budgetary control provisions).

From the testing undertaken by the Internal Audit Section over the course of the year I am satisfied that sufficient assurance work has been undertaken to allow me to form a reasonable conclusion on the adequacy and effectiveness of the Council’s control environment to support the preparation of the Annual Governance Statement.

It is my opinion that the Council continues to have an appropriate, and overall, an effective system of internal control, upon which it can place reasonable reliance to deliver the Council’s objectives, and detect fraud and other malpractice within a reasonable period of time.

I can confirm there have been no impairments to independence or objectivity of the service.

Conformance with the Public Sector Internal Audit Standards (PSIAs)

Conformance with the Public Sector Internal Audit Standards provides assurance on the adequacy of arrangements for management of the internal audit function and the level of reliance that can be placed on the opinions given in this report.

A review of conformance has been conducted internally, this has confirmed that the service remains compliant with the PSIAs. This view is supported by an external review conducted by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2022 which concluded that the service conforms with the PSIAs. Such an external review is required to be completed at least once every 5 years.

Section 2 Results

Detailed Results to Support the Opinion Given

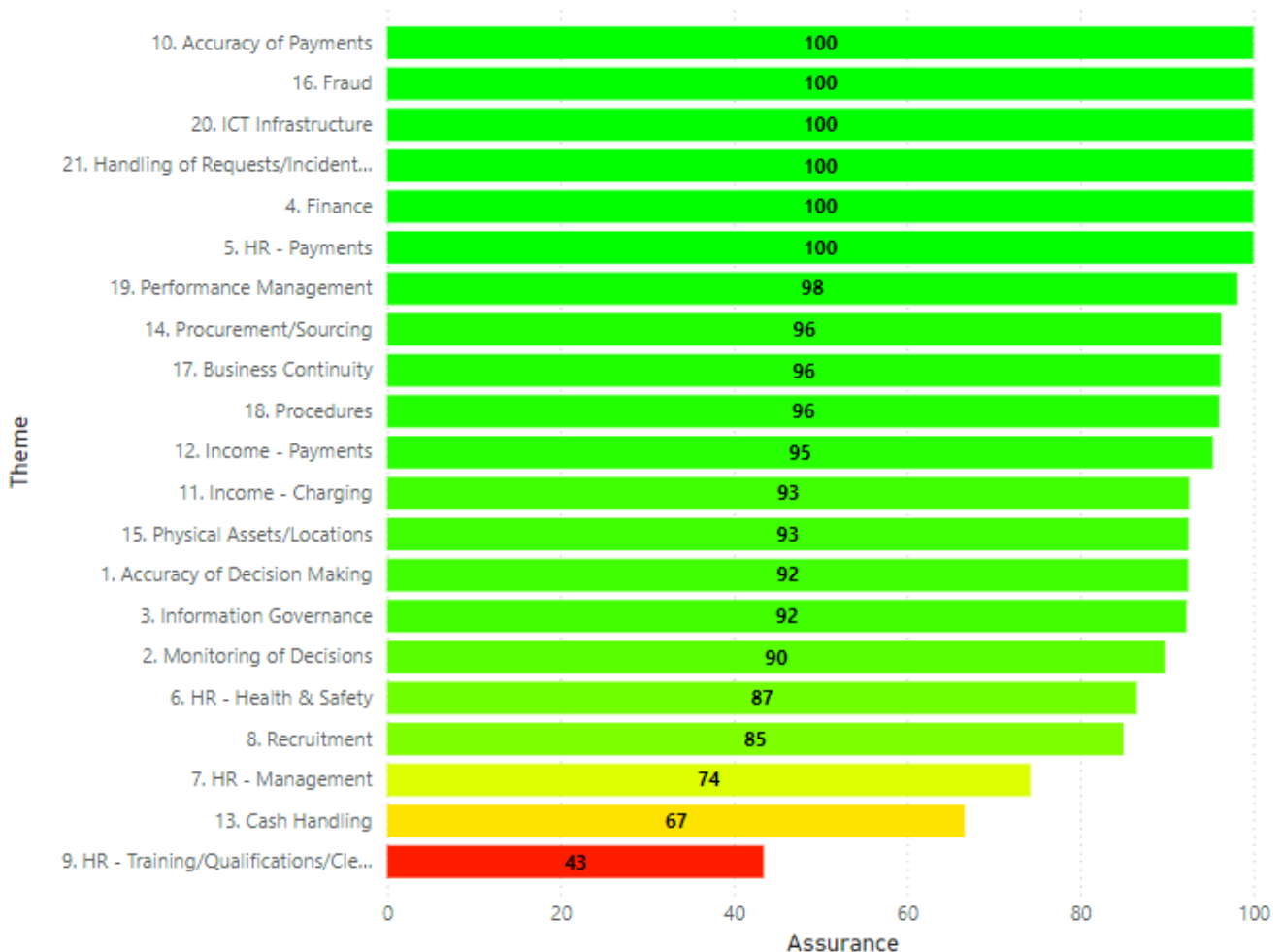
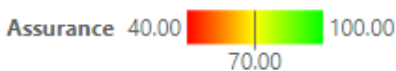
Adequate Coverage

In order to be able to provide an opinion sufficient work must have been completed. Frequency of testing is determined by an audit risk assessment, which establishes a minimum frequency of testing. The risk assessment determines that for the period 1 July 2023 to 30 June 2024, 300 controls needed to be tested, for the same period 303 controls were tested. Therefore, sufficient work was completed to be able to provide an opinion. The controls specified in the program are regularly reviewed throughout the year to ensure they remain up to date.

Assurance Levels by Theme

Each control is assigned to a governance theme. The level of assurance against each theme for the same period is shown below. In general, we have a good level of assurance against each of the themes, for information we set a benchmark of 70 to determine the adequacy of controls. We have 2 categories below this value, the number of controls in these categories are proportionally lower than the other categories and therefore do not impact on the overall opinion.

Assurance by Theme



Assurance by Strategic Risk

To support the risk management process controls are assigned to strategic risks in the risk register. The levels of assurance against each risk can be seen below, the results show a good level of assurance.

Assurance by Risk		
Risk Ref	Risk	Assurance
SR10	Planning Performance at risk of Standards Authority intervention	100.00
SR12	Fraud in general	100.00
SR13	Instability within financial markets adversely impacts on finance costs and investments	100.00
SR14	Financial pressures to the General Fund as a result of increased levels of unemployment and increased Council Tax Support claims	100.00
SR15	Inability to cope with significant increase in homelessness cases following the impact of COVID.	100.00
SR16	Inability to contain placement costs for children looked after due to lack of sufficient in house placements	100.00
SR17	Inability to recruit and retain sufficient qualified suitably experienced social workers in Children's Services impacts on cost and quality of service	100.00
SR18	Inability to recruit and retain sufficient qualified suitably experienced social workers and reablement staff in Adult Services impacts on cost and quality of service	100.00
SR19	Failure to identify vulnerable schools and broker appropriate support to address needs	100.00
SR20	Increased demand for Adult Services impacts negatively on plans for budget efficiencies	100.00
SR21	Increased demand for Children's Services impacts negatively on budget	100.00
SR22	Market (Domiciliary Care Residential Care providers) failure following the Care Act/Living Wage	100.00
SR23	Market (Domiciliary Care Residential Care providers) for Vulnerable Families with Children (including SEND) experiences provider failure	100.00
SR25	The Deprivation of Liberty Safeguards Threshold changes significantly increases the amount of people deprived of their liberty resulting in potential for increased legal challenge	62.50
SR26	Failure to respond appropriately to safeguard vulnerable adults, in line with national legislation and safeguarding adults procedures	70.00
SR27	Failure to respond appropriately to safeguard vulnerable children, in line with national legislation and safeguarding children, thresholds and procedures.	81.82
SR28	Working with other local commissioners to ensure their understanding of their responsibilities within the Childhood pathway.	100.00
SR29	Risk of unsuccessful mobilisation of new service - Support, Recovery and Treatment in Darlington through Empowerment (STRIDE).	100.00
SR3	Business Continuity Plans not in place or tested for key critical services	97.33
SR33	Impact of national cost of living crisis on customers and audiences for Leisure and Cultural facilities	100.00
SR34	Budget & resource implications arising from the ability to progress and complete schemes/projects in the event of further construction inflation, material supply and resource demands	100.00
SR35	Potential impact on public transport networks if commercial services do not recover or continue to receive support from Government and routes are withdrawn	100.00
SR36	Failure to meet the Council's commitment to becoming Carbon neutral by 2050	100.00
SR38	Reputational and regulatory risk if reinspection not successful	93.65
SR40	Managing the impact of severe weather events	100.00
SR42	Risk of enforcement action from the ICO	100.00
SR43	Risk of new dangerous variant or a significant wave of COVID-19 impact on the Council's ability to provide services as a result of a new dangerous variant or a significant wave of COVID-19 or the activation of UKHSA Contingency plan	100.00
SR44	April 2023 will see the implementation of the CQC inspection framework for Adult Social Care. Due to the significant demands on adult social care, the pressures following covid, and the workforce recruitment and retention crisis will impact on the ratings- resulting in an "requiring improvement" outcome.	87.13
SR7	Financial implications of Maintaining and conserving key capital assets within the borough	100.00
SR8	Investment in regeneration projects is not delivered	100.00

Recommendations

The internal audit service supports continuous improvement by making recommendations to improve the controls in place. The majority of recommendations made have either been implemented or are in the process of being implemented which demonstrates a positive contribution to the improvement of controls within the Authority.

Priority	Agreed	Implemented	Not Implemented	Risk Tolerated	Total
High	11	9			20
Low	4	7	1	1	13
Medium	7	25	3	1	36
Total	22	41	4	2	69

Counter Fraud

In addition to the review of specific controls designed to prevent/detect fraud (93% Assurance) we also consider fraud risk as part of all of our testing, for example when assessing an application the checks that have been made to validate information, which would be included in the “Accuracy of Decision Making” theme. The results of the NFI exercise completed early 2023 can be summarized as follows:

- 2776 matches returned;
- 2532 matches processed;
- 0 frauds identified, 16 errors identified, resulting in overpayment of £10,767 of which £4,850 has been recovered to date.

Added Value Work

The internal audit service have supported the Council outside of the normal audit process in the following ways:

- Daily checks to support Xentrall to identify any potential duplicate payments, before the payment is made. Feedback from Xentrall is that there are a number of duplicate payments prevented reducing potential losses to the council.
- Supporting the arrangements put in place to manage ticketing at Hopetown.
- Provided advice on the refunds process that should be in place at the Hippodrome.

Section 3 Quality, Assurance & Improvement Process (QAIP)

Results of Measures in Place to Continuously Improve the Service

Balanced Scorecard

The service monitors a number of measures designed to demonstrate compliance with the standards and the effectiveness of the service overall. There are no issues to note in any of these measures.

Stewardship (Coverage)		
Measure	Target	Performance
Adequate Resources (Next 3 Months)	15	16
Portfolio Coverage (Period)	300	303
Presentation of Annual Report (Annual)	June	July 2024
Presentation of Activity Report	Qtrly	Qtrly

Stakeholders		
Measure	Target	Performance
Reports Issued	Qtrly	Daily
Fraud Strategy Review	31/03/2024	Sept 2023
Client Satisfaction	TBC	*
Recommendation Implementation	90%	93%

Process		
Measure	Target	Performance
Self assessment against standards (Annual)	March	March 2024
External Assessment (Every 5 Years)	March 2023	January 2023
Staff Meetings Held (Period)	26	38
Up to Date Audit Manual	March 2024	March 2024

People		
Measure	Target	Performance
Productivity (Period)	75%	75%
Training (Per Financial Year)	20	23
Code of Conduct (Annual)	100%	100%
Appraisals (Annual)	100%	100%

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**AUDIT COMMITTEE
22 JULY 2024**

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 and that the planned work is agreed.

Reasons

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

**Andrew Barber
Assurance 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.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact and Climate Change	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
Council Plan	Maintaining an appropriate oversight of risk & controls will help contribute to the delivery of the Council Plan Objectives
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Information and Analysis

5. 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.
6. **Appendix A** provides members with detailed feedback on the performance of the service and the position in relation to completion of audit work.
7. The first section of the report is to provide members with feedback on the management of the risks on the corporate risk register. This has been updated to reflect changes to the corporate risk register.

	Comments
Overall Position	<p>The majority of risks have assurance over 75%, previously reported:</p> <p>SR25 – The control around procurement of DoLs assessors is marked as amber due to impending changes in the process.</p> <p>SR26 – Procedures have not been updated since 2021, a new officer is due to commence in Sept 2023 who will be responsible for updating the procedures.</p>
Emerging Issues	No change from the previous report so no new emerging risk areas.

Assurance by Risk

Rsk Ref	Risk	Assurance
SR10	Planning Performance at risk of Standards Authority intervention	100.00
SR12	Fraud in general	100.00
SR13	Instability within financial markets adversely impacts on finance costs and investments	100.00
SR14	Financial pressures to the General Fund as a result of increased levels of unemployment and increased Council Tax Support claims	100.00
SR15	Inability to cope with significant increase in homelessness cases following the impact of COVID.	100.00
SR16	Inability to contain placement costs for children looked after due to lack of sufficient in house placements	100.00
SR17	Inability to recruit and retain sufficient qualified suitably experienced social workers in Children's Services impacts on cost and quality of service	100.00
SR18	Inability to recruit and retain sufficient qualified suitably experienced social workers and reablement staff in Adult Services impacts on cost and quality of service	100.00
SR19	Failure to identify vulnerable schools and broker appropriate support to address needs	100.00
SR20	Increased demand for Adult Services impacts negatively on plans for budget efficiencies	100.00
SR21	Increased demand for Children's Services impacts negatively on budget	100.00
SR22	Market (Domiciliary Care Residential Care providers) failure following the Care Act/Living Wage	100.00
SR23	Market (Domiciliary Care Residential Care providers) for Vulnerable Families with Children (including SEND) experiences provider failure	100.00
SR25	The Deprivation of Liberty Safeguards Threshold changes significantly increases the amount of people deprived of their liberty resulting in potential for increased legal challenge	62.50
SR26	Failure to respond appropriately to safeguard vulnerable adults, in line with national legislation and safeguarding adults procedures	70.00
SR27	Failure to respond appropriately to safeguard vulnerable children, in line with national legislation and safeguarding children, thresholds and procedures.	81.82
SR28	Working with other local commissioners to ensure their understanding of their responsibilities within the Childhood pathway.	100.00
SR29	Risk of unsuccessful mobilisation of new service - Support, Recovery and Treatment in Darlington through Empowerment (STRIDE).	100.00
SR3	Business Continuity Plans not in place or tested for key critical services	97.33
SR33	Impact of national cost of living crisis on customers and audiences for Leisure and Cultural facilities	100.00
SR34	Budget & resource implications arising from the ability to progress and complete schemes/projects in the event of further construction inflation, material supply and resource demands	100.00
SR35	Potential impact on public transport networks if commercial services do not recover or continue to receive support from Government and routes are withdrawn	100.00
SR36	Failure to meet the Council's commitment to becoming Carbon neutral by 2050	100.00
SR38	Reputational and regulatory risk if reinspection not successful	93.65
SR40	Managing the impact of severe weather events	100.00
SR42	Risk of enforcement action from the ICO	100.00
SR43	Risk of new dangerous variant or a significant wave of COVID-19 impact on the Council's ability to provide services as a result of a new dangerous variant or a significant wave of COVID-19 or the activation of UKHSA Contingency plan	100.00
SR44	April 2023 will see the implementation of the CQC inspection framework for Adult Social Care. Due to the significant demands on adult social care, the pressures following covid, and the workforce recruitment and retention crisis will impact on the ratings- resulting in an "requiring improvement" outcome.	87.13
SR7	Financial implications of Maintaining and conserving key capital assets within the borough	100.00
SR8	Investment in regeneration projects is not delivered	100.00

8. The next section breaks down audit results against a set of key governance processes.

	Comments
Overall Position	The majority of themes are showing a positive level of assurance overall, some of the areas shown as below 75% have been reported previously.
Emerging Issues	Mandatory Information Governance Training still remains below the target completion rate of 95%, it should be recognised that this is an expectation of the information commissioner and is a challenging target given staff turnover numbers.

Results by Theme

Theme	1 Red	2 Amber	3 Green	Total
1. Accuracy of Decision Making	1	5	57	63
10. Accuracy of Payments			23	23
11. Income - Charging		2	7	9
12. Income - Payments			12	12
13. Cash Handling	1		2	3
14. Procurement/Sourcing		1	14	15
15. Physical Assets/Locations		3	23	26
16. Fraud			11	11
17. Business Continuity		1	12	13
18. Procedures		1	10	11
19. Performance Management	1		34	35
2. Monitoring of Decisions		4	20	24
20. ICT Infrastructure			21	21
21. Handling of Requests/Incident Response			11	11
3. Information Governance	1	6	50	57
4. Finance			25	25
5. HR - Payments			4	4
6. HR - Health & Safety		1	5	6
7. HR - Management		3	6	9
8. Recruitment		1	2	3
9. HR - Training/Qualifications/Clearances	12	6	12	30
Total	16	34	361	411

Assurance by Theme

Theme	Assurance
1. Accuracy of Decision Making	92.47
10. Accuracy of Payments	100.00
11. Income - Charging	92.59
12. Income - Payments	100.00
13. Cash Handling	66.67
14. Procurement/Sourcing	96.30
15. Physical Assets/Locations	92.50
16. Fraud	100.00
17. Business Continuity	96.21
18. Procedures	96.05
19. Performance Management	98.16
2. Monitoring of Decisions	89.77
20. ICT Infrastructure	100.00
21. Handling of Requests/Incident Response	100.00
3. Information Governance	92.27
4. Finance	100.00
5. HR - Payments	100.00
6. HR - Health & Safety	86.54
7. HR - Management	74.24
8. Recruitment	85.00
9. HR - Training/Qualifications/Clearances	43.46
Total	90.44

Overall Results

Status	1 Very Low	2 Low	3 Medium	4 High	5 Very High	Total
1 Red		2	13		1	16
2 Amber		15	11	7	1	34
3 Green	22	165	105	55	14	361
Total	22	182	129	62	16	411

Results in Period

Status	2 Low	3 Medium	4 High	5 Very High	Total
1 Red	2	13		1	16
2 Amber	4	4	3		11
3 Green	18	13	11	6	48
Total	24	30	14	7	75

- The next section looks at service area and provides feedback on the work undertaken in the previous quarter and a summary of the work planned to be undertaken.

	Comments
Overall Position	The majority of controls are rated Green. Public Health assurance levels have improved over the period.
Emerging Issues	No changes from previous report.

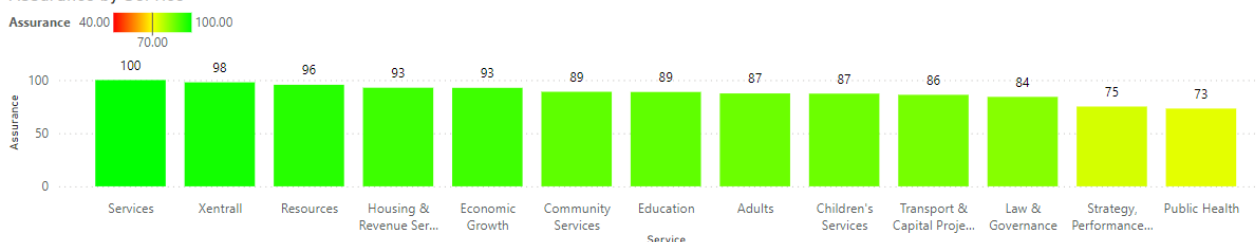
Results by Service

Service	1 Red	2 Amber	3 Green	Total
Adults	1	5	27	33
Children's Services	2	7	43	52
Community Services	2	5	47	54
Economic Growth	1	2	26	29
Education	1	2	23	26
Housing & Revenue Services	1	1	19	21
Law & Governance	2	6	28	36
Public Health	2		5	7
Resources	1	1	43	45
Services			3	3
Strategy, Performance & Communications	2	1	7	10
Transport & Capital Projects	1	1	11	13
Xentrall		3	70	73
Total	16	34	352	402

Recommendations

Service	Agreed	Draft	Implemented	Not Implemented	Risk Tolerated	Total
Adults						
Children's Services						
Community Services						
Economic Growth						
Education						
Housing & Revenue Services						
Law & Governance						
Public Health						
Resources						
Strategy, Performance & Communications						
Transport & Capital Projects						
Xentrall						
Total	22	19	41	4	2	88

Assurance by Service



- The penultimate section is progress against our balanced scorecard. The key measures in this section are adequate resources and portfolio coverage. In terms of adequate resources we aim to have 15 days capacity spare to deal with any issues that may arise. Portfolio coverage identifies the number of controls that must be tested in the period to maintain adequate coverage, we were on target for the previous period.

Stewardship (Coverage)			Stakeholders		
Measure	Target	Actual	Measure	Target	Actual
Adequate Resources	15	18	Reporting	Qtrly	*
Portfolio Coverage	75	75	Fraud Strategy	November	*
Annual Report	June	*	Satisfaction	TBC	*
Activity	Qtrly	*	Recommendation Implementation	TBC	*

Process			People		
Measure	Target	Actual	Measure	Target	Actual
PSIAS Internal Review	March	*	Productivity	75%	75%
PSIAS External Review	March 2023	*	Training	20	*
Staff Meetings	8	11	Code of Conduct	100%	*
Audit Manual Update	March		Appraisals	100%	*

*- to be reported annually

11. The final section of the report (Appendix A) is a full list of controls to be examined in the next period in priority order.
12. I currently do not have any concerns over the resourcing levels of the service or any impairment of the independence of the service to report to members. However it should be noted that we do have a member of staff expected to go on maternity leave in October, plans are being made to manage this resource gap.

Outcome of Consultation

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

ID	Control	Frequency
30	Petty Cash is appropriately safeguarded and reconciled.	3
55	Accurate and timely assessment of children's referrals is undertaken.	3
119	Client risk assessments are undertaken and appropriate arrangements in place for the provision of Community (SBC) and Passenger (DBC) Transport (social care and education) service usage.	3
214	Procurement by Legal Services is in line with contract procedure rules and value for money principles.	3
218	Posts requiring a DBS check are identified and requirements are in line with legislation.	3
231	Payments to events performers and suppliers and performance are effectively managed	3
380	The Supporting Families programme is managed effectively.	3
438	Waste and recycling targets are achieved.	3
465	Public health research and local needs assessment.	3
471	Achievement of completion rate targets for mandatory on-line information governance training.	3
577	The correct charges are raised for Housing Rents.	3
661	Youth Employment Initiative financial claims are submitted in an accurate and timely manner.	3
688	National Fraud Initiative (NFI) matches in relation to procurement are promptly reviewed and investigations undertaken as necessary.	3
740	Staff within Transport and Capital projects have completed mandatory information governance training.	3
741	Staff within Public Health have completed mandatory information governance training.	3
742	Staff within Children's Services have completed mandatory information governance training.	3
743	Staff within Adults Service have completed mandatory information governance training.	3
744	Staff within Education services have completed mandatory information governance training.	3
745	Staff within Economic Growth have completed mandatory information governance training.	3
746	Staff within Resources have completed mandatory information governance training.	3
747	Staff within Strategy, performance and communications have completed mandatory information governance training.	3
748	Staff within Housing and Revenue services have completed mandatory information governance training.	3
749	Staff within Law & Governance have completed mandatory information governance training.	3
795	Staff within Community Services have completed mandatory information governance training.	3
812	Staff within Commissioning, performance and transformation have completed mandatory information governance training.	3
35	Section 17 payments made in respect of children are appropriately managed.	6
45	Staff assessing children's cases have the relevant qualifications and DBS clearances.	6
56	Agreements for early years provision are in place and being complied with and monitoring visits are being undertaken.	6
78	Focussed financial support to commercial ventures.	6
112	Process Council Tax Reduction claims.	6
113	Process housing benefit claims.	6
117	Contractors and sub-contractors involved in the provision of passenger transport hold the necessary clearances, licences, qualifications and insurance.	6
133	Charges for internal and external security and surveillance services are raised accurately and promptly, and all income due has been received.	6
165	Adult Services have a service strategy in place and delivery is being monitored.	6
172	An up to date strategic plan is in place for the Safeguarding Adults Board.	6
174	Adult Social Care cases are allocated appropriately considering caseloads and qualification requirements.	6

ID	Control	Frequency
175	Adult Social Care referrals and assessments are processed in an accurate and timely manner.	6
182	Where the Authority has Deputyship/Appointeeship, appropriate authorisation/legal documentation is in place.	6
203	Website and Intranet content is relevant and up to date.	6
215	Accurate charging is made in accordance with approved scale of land charges and fees.	6
232	Learning and Skills Tutors are suitably qualified, trained and have necessary clearances.	6
235	Adequate emergency response plans are in place for events and venues.	6
236	Arts and museum assets are adequately safeguarded and insured.	6
244	Maintain an up to date and accurate register of officers and members business interests.	6
249	Timely and accurate financial assessments are undertaken for service users wishing to take up a service.	6
259	Records relating to Environmental Health cases are appropriately recorded and managed.	6
270	Building control decisions are appropriately authorised and made in line with Building Regulations.	6
283	Disposals of ICT equipment are undertaken in an appropriate manner in line with an adequate and appropriate official disposal policy.	6
343	The appointment process is fair, robust and managed effectively.	6
371	Information held about children, young people and their families is appropriate/up to date and sharing is in line with GDPR and IARs.	6
379	Corporate privacy notices in place.	6
416	Trading standards investigations, interventions and responses to complaints are recorded accurately and information shared securely, as necessary.	6
417	Compliance with licence conditions is monitored and appropriate sanctions taken when necessary.	6
545	There is an effective appeals process for transport eligibility decisions.	6
716	Bridges quality and compliance systems are operating effectively	6
826	Adequate and appropriate controls are in place in relation to the use of mobile devices for work purposes.	6
855	Cybersecurity related risks for the organisation have been adequately considered.	6
856	Adequate and appropriate controls are in place to protect the organisation against cybersecurity attacks.	6
26	Attainment in schools is appropriately monitored.	12
76	Ensure accurate monitoring of capital programme and schemes	12
79	Maintain formula and support for funding schools and high needs.	12
81	Operate clear arrangements for billing and collection of council tax and business rates	12
146	Bridge Inspections are undertaken in accordance with an appropriate specified programme.	12
158	Disabled Facilities Grants recipients meet grant eligibility criteria, payments and contributions are correct.	12
163	Business continuity arrangements are in place in order to continue to receive adult referrals and undertake assessments.	12
178	Staff working in settings for adults are suitably qualified and receive appropriate training.	12
251	Sufficient health & safety measures/risk assessments are in place/undertaken at individual adults establishments.	12
256	Formal signed S75 agreement in place between LA/ICB in accordance with relevant guidance.	12
289	Appropriate disaster recovery plans and procedures are in place to support recovery from a partial or total loss of significant ICT systems/servers.	12
290	Where applicable, appropriate internal disaster recovery arrangements (including backup, replication and snapshot facilities) are in place to cover significant ICT system/servers.	12
299	ICT project controls include adequate consideration of the relevant security/technical elements of cloud/externally hosted ICT systems.	12
302	Anti-virus controls are in place for relevant elements of the ICT infrastructure including servers and individual	12

ID	Control	Frequency
313	The Resourcelink payroll system calculates all payments correctly.	12
356	Address patterns of absence and promote regular attendance at school.	12
397	Economic Growth Strategy and Economic Growth Plan is monitored and milestones achieved.	12
399	Support is provided to new and existing businesses.	12
484	Suitability of approved in-house foster carers is monitored.	12
523	Where financial assistance has been provided to businesses these are being monitored for compliance.	12
794	Food & Hygiene premises rating system programme of inspections is effectively managed.	12
875	Performance oversight and reporting in line with the terms and conditions of the youth justice grant.	12
152	Compliance with DEFRA funding terms and conditions for grant payments received for the delivery of weekly 0 food waste collections.	12
89	Development of an appropriate risk assessed H&S audit programme.	18
91	Delivery of an effective Internal Audit Service in compliance with Accounts & Audit Regulations.	18
148	Street Lighting inspections and associated electrical testing are undertaken in accordance with an appropriate specified programme and relevant legislation/guidance.	18
200	The Council maintains an accurate and up to date land charges register.	18
216	Land charge related searches are completed effectively and within a reasonable timescale.	18
221	Information security and sharing protocols in relation to occupational health and employee therapy provision is in line with data protection legislation.	18
307	Appropriate access controls are in place to secure the virtualised environment.	18
332	Arrears recovery procedures are clearly defined and implemented in all cases. Reminder and recovery action periods are suitable for the types of debtor involved. Like debtors are treated equally.	18
370	Commercial delegated planning applications are considered and determined in line with the local development plan, national planning framework, gives consideration to the provision of green spaces and are dealt with in accordance of the appropriate timescale.	18
402	Tackling town centre property vacancies.	18
413	Licence applications are subject to appropriate review and approval, evidence of background and eligibility.	18
415	A risk based programme of trading standards inspections and testing is in place.	18
488	School admissions appeals are appropriately managed.	18
503	The programme of trading standards inspections and sample testing is being monitored for completion.	18
513	Building control decisions are accurately recorded.	18
526	Changes in circumstances for council tax reduction and housing benefit claimants are processed appropriately.	18
797	Records and confidentiality in relation to confidential/whistleblowing reports are maintained.	18
798	Investigations into confidential/whistleblowing reports are appropriate, acknowledged within timescales, and in line with Public Interest Disclosure Act.	18
811	Staff within Darlington Partnership have completed mandatory information governance training.	18
63	Annual maintenance plans are in place for all Council owned operating premises.	24
87	Co-ordinate complaints process.	24
154	Appropriate controls and systems are in place to administer parking permits/waivers and the Blue Badge scheme.	24
180	Adequate security measures are in place at each Day Service, Residential and Supported Living establishment to protect clients, guests and residents property and other assets.	24
191	Environmental Health cases are appropriately allocated to officers.	24
192	Environmental Health income is managed appropriately and all income due to the service is collected.	24

ID	Control	Frequency
226	Successful delivery of a varied arts and events programme.	24
238	Learning and Skills course fees are set appropriately and income taken is held securely and adequately accounted for.	24
241	Adult Learners and Apprentices details are accurate, up to date and safeguarded.	24
258	Environmental Health officers have the appropriate qualifications and undertake the required training.	24
263	Appropriate measures are in place to identify, record and investigate significant flooding incidents.	24
345	All newly appointed employees are subject to an appropriate induction.	24
374	Effective management of payments and expenses associated with child contact visits.	24
387	Effective community engagement and consultation.	24
411	Appropriate licence fees are established.	24
445	Procedures in place ensure statutory records in relation to registrations and burials are accurate and complete.	24
446	Compliance with General Register Officer (GRO) statistical reporting requirements.	24
475	Records relating to housing and housing related developments are accurate, up to date and appropriately safeguarded.	24
481	Up to date HR policies and procedures.	24
483	Payments made to external providers of short breaks for young people with complex and additional needs are accurate and timely.	24
515	Fees for building control applications have been set appropriately.	24
547	The correct fee is received for licenses.	24
753	The purpose and scope of CCTV coverage at the depot has been appropriately documented and a Privacy Impact Assessment undertaken.	24
754	The purpose and scope of CCTV coverage of playgrounds has been appropriately documented and a Privacy Impact Assessment undertaken.	24
755	The purpose and scope of CCTV coverage used by street scene/refuse has been appropriately documented and a Privacy Impact Assessment undertaken.	24
756	The purpose and scope of body worn CCTV has been appropriately documented and a Privacy Impact Assessment undertaken.	24
757	The purpose and scope of CCTV coverage in the town centres has been appropriately documented and a Privacy Impact Assessment undertaken.	24
758	The purpose and scope of CCTV coverage in the hippodrome has been appropriately documented and a Privacy Impact Assessment undertaken.	24
759	The purpose and scope of CCTV coverage in the Dolphin Centre has been appropriately documented and a Privacy Impact Assessment undertaken.	24
760	The purpose and scope of CCTV coverage at the museum has been appropriately documented and a Privacy Impact Assessment undertaken.	24
877	Adult social care staff supervision and appraisal in accordance with policy and agreements.	24
427	Receipt of appropriate fees prior to release of lost animals to their owner.	48
508	Information relating to parking permits/waivers and Blue Badges is appropriately stored and kept up to date.	48
514	An appropriate fee has been received for building control applications.	48

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**AUDIT COMMITTEE
22 JULY 2024**

TAXATION STRATEGY

SUMMARY REPORT

Purpose of the Report

1. To present to the Audit Committee the proposed Taxation Strategy (Tax Strategy) for the Council.

Summary

2. The Tax Strategy sets out the overall framework for the Council's management of its tax affairs.
3. The Finance Act 2016 Schedule 19 sets out what should be included in a Tax Strategy. While the Council is not required to publish a Tax Strategy under this legislation, it is good practice to do so and demonstrates the Council's commitment and transparency in how it is managing its tax affairs.
4. The key components of the Tax Strategy are;
 - (a) The Council's approach to risk management and governance arrangements in relation to taxation.
 - (b) The Council's attitude towards tax planning.
 - (c) The level of risk in relation to taxation that the Council is prepared to accept.
 - (d) The Council's approach towards its dealings with HMRC.

Recommendation

5. The Committee reviews and notes the proposed Tax Strategy for the Council.

Reason

6. To comply with legislation and provide good practice in managing tax affairs.

**Elizabeth Davison
Group Director of Operations**

Background Papers

No background papers were used in the preparation of this report

David Grieveson : Extension 5402

S17 Crime and Disorder	There is no specific crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact and Climate Change	There 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.
Council Plan	This report has no particular implications for the Council Plan.
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.

MAIN REPORT

Information and Analysis

7. The Tax Strategy sets out the overall framework for the Council's management of its tax affairs.
8. The Finance Act 2016 Schedule 19 sets out what should be included in a Tax Strategy. While the Council is not required to publish a Tax Strategy under this legislation, it is good practice to do so and demonstrates the Council's commitment and transparency in how it is managing its tax affairs.
9. The key components of the Tax Strategy are;
 - (a) The Council's approach to risk management and governance arrangements in relation to taxation.
 - (b) The Council's attitude towards tax planning.
 - (c) The level of risk in relation to taxation that the Council is prepared to accept.
 - (d) The Council's approach towards its dealings with HMRC.
10. The Council aims to be fully compliant with all tax laws, rules, and regulations. It is committed to conducting its tax affairs in an open, honest, and timely fashion. The Council does not seek to gain a tax advantage through tax avoidance and seeks to manage its tax affairs in an efficient manner.

11. To achieve this the Council undertakes to:
 - (a) Take all reasonable steps to ensure that it is fully compliant with tax legislation and pays the right amount of tax at the right time.
 - (b) Maintain an open, honest, and collaborative relationship with the tax authorities.
 - (c) Respond to all queries and enquiries in a timely fashion.
 - (d) Where the correct tax treatment is ambiguous and where it is appropriate to do so, take the appropriate external advice and act in accordance with that advice, making disclosures to the tax authorities as appropriate.
 - (e) In cases of dispute, act transparently and fairly, aiming to resolve the dispute in a manner that preserves good working relationships.
12. The Council's overall management of tax risk and supporting governance framework is the responsibility of the Director of Operations (Section 151 officer).
13. The Council's Tax Strategy attached in **Appendix 1**.

Tax Strategy

Introduction

1. The Tax Strategy of Darlington Borough Council sets out the overall framework for the Council's management of its tax affairs and includes:
 - (a) Compliance,
 - (b) Policies and procedures,
 - (c) Tax risk,
 - (d) Tax planning,
 - (e) Relationship with the tax authorities.
2. The Finance Act 2016 states a tax strategy should cover the following specific requirements:
 - (a) Governance arrangements in relation to tax.
 - (b) Approach to risk management.
 - (c) Attitude of the Council towards tax planning.
 - (d) The level of risk in relation to UK taxation that the Council is prepared to accept.
 - (e) Approach of the Council towards their dealings with HMRC.

Background

3. The Council is a Local Government body and as such is a Section 33 Body under the VAT Act 1994. This entitles it to recover VAT attributable to non-business activities and to exempt business activities, providing this is an insignificant proportion of the total tax incurred.
4. As a Local Government body, the Council is exempt from Corporation Tax.

Governance

5. Governance comprises the arrangements put in place by the Council to ensure that the intended outcomes for stakeholders are defined and achieved. To deliver good governance both the Council and individuals working for it must aim to achieve the Council's objectives while acting in the public interest at all times. The core principles of good governance are:
 - (a) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
 - (b) Ensuring openness and comprehensive stakeholder engagement.
 - (c) Defining outcomes in terms of sustainable economic, social, and environmental benefits.

- (d) Determining the interventions necessary to optimise the achievement of the intended outcomes.
 - (e) Developing the entity's capacity, including the capability of its leadership and the individuals within it.
 - (f) Managing risks and performance through robust internal control and strong public financial management.
 - (g) Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.
6. The Council supports these principles fully and has developed the Local Code of Corporate Governance as a public statement of the commitment to these principles and sets out clearly the way in which the Council will meet that commitment.
7. In line with the Council's governance framework and consistent with its wider values, the Council aims to being fully compliant with all tax laws, rules, and regulations. It is committed to conducting its tax affairs in an open, honest, and timely fashion. The Council does not seek to gain a tax advantage through tax avoidance and seeks to manage its tax affairs in an efficient manner.
8. To achieve this the Council undertakes to:
- (a) Take all reasonable steps to ensure that it is fully compliant with tax legislation and pays the right amount of tax at the right time.
 - (b) Maintain an open, honest, and collaborative relationship with the tax authorities.
 - (c) Respond to all queries and enquiries in a timely fashion.
 - (d) Where the correct tax treatment is ambiguous and where it is appropriate to do so, take the appropriate external advice and act in accordance with that advice, making disclosures to the tax authorities as appropriate.
 - (e) In cases of dispute, act transparently and fairly, aiming to resolve the dispute in a manner that preserves good working relationships.
9. The Council has specific controls and procedures in place at operational level to ensure compliance with relevant tax legislation and mitigate tax risk. There are appropriate designated lead tax officers within the Council and its Shared Services provider that deal with the day-to-day tax compliance.
10. The Council's day to day management of tax affairs is the responsibility of the Assistant Director of Resources with the overall management of tax risk and supporting governance framework is the responsibility of the Group Director of Operations (Section 151 officer).

Risk Management

11. The Council's Risk Management Policy Statement states that 'the Council will embed risk management into its culture, processes, and structure to ensure that opportunities are maximised and will encourage managers to identify, understand and manage risks'.
12. The Council's Risk Management Strategy explains the processes in identifying, analysing, managing, and monitoring risks. By focusing upon these key risks and priorities for the Council, risks can then be managed through the development of appropriate action plans.
13. Tax risk falls into three broad categories:
 - (a) Compliance Risk – procedures or processes are deficient in ensuring that the right amount of tax is paid at the right time.
 - (b) Transactional Risk – transactions are entered without full consideration of the tax implications.
 - (c) Reputational Risk – the damage risks have on the Council's relationship with stakeholders including HMRC.
14. Given the size and complexity of the Council, it is not possible to completely eliminate tax risk, however, with careful management, the chance of errors and impact of risks can be significantly reduced.
15. The Council maintains robust processes and controls which are designed to minimise the risk of errors or inaccuracies arising which could impact the amount of tax that we pay. These processes and controls are regularly monitored, reviewed, and tested and underpin the submission of returns prepared by us and, as an employer, for our staff.
16. The Council engages the services of an external tax advisor which specialises in public sector tax, which includes a helpline, regular VAT & Employment Tax Forums, and tax briefings on both established and emerging tax issues.
17. For more complex or unusual transactions the Council will seek specialist tax advice to ensure tax implications are fully understood and considered.
18. The Council has a low-risk appetite in relation to tax matters and does not use artificial tax structures or undertake transactions whose sole purpose is to create an abusive tax result. When evaluating tax planning the Council's reputation and corporate and social responsibilities are always considered.
19. Tax implications, particularly VAT, are considered as part of the council approval process and a section is included in cabinet and council reports.

Tax Planning

20. The Council will claim such reliefs and incentives as it is properly entitled to and will take reasonable steps to minimise its tax liabilities, where it is appropriate and responsible to do so.

21. The Council strives for full compliance with all statutory obligations, full disclosure to relevant tax authorities and payment of the right amount of tax.
22. Tax planning is used to support the Council's decision-making process. Proactive risk management approach is encouraged as this will lead to decisions made based on properly assessed risks, and this will ensure the right actions taken at the right time.
23. The Council seeks to consider the tax implications of any proposed activity, so they are properly recognised before decisions are made.
24. Designated tax officers are available to offer advice to service areas and external advisors are engaged for complex or unusual activities. Advice is sought from external advisers where uncertainty exists.
25. To determine the council's future VAT exposure with regards to exempt VAT, projections of the council's partial exemption position are made on a regular basis and reported to the Asset Management Group whose membership includes Group Directors and Assistant Directors.

Dealings with HMRC

26. The Council is transparent about its approach to tax and where it is appropriate to do so will discuss the interpretation of tax legislation with external advisors and HMRC, particularly where the tax treatment is unclear. HMRC will be kept up to date regarding major changes or transactions within the business, so that any potential tax risks can be addressed at an early stage.
27. The Council engages with HMRC openly, honestly, and constructively with a proactive attitude in respect of tax matters and responds to queries and enquiries in a timely fashion.
28. The Council submits voluntary disclosures to HMRC when errors occur and acts quickly to ensure the appropriate actions are carried out to prevent reoccurrences.

Related Policies & Procedures

29. The following policies and procedures support the Council's approach to tax:
 - (a) Local Code of Corporate Governance
 - (b) Financial Procedure Rules
 - (c) Risk Management Strategy
 - (d) Anti-Fraud and Corruption Policy
 - (e) Anti-Money Laundering Policy
 - (f) Whistleblowing Policy.

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AUDIT COMMITTEE
22 JULY 2024

TREASURY MANAGEMENT ANNUAL REPORT AND OUTTURN
PRUDENTIAL INDICATORS 2023/24

SUMMARY REPORT

Purpose of the Report

1. This report provides important information regarding the regulation and management of the Council's borrowing, investments and cash-flow. It is a requirement of the Council's reporting procedures and by regulations issued under the Local Government Act 2003 to produce an annual treasury management review that covers treasury activity for 2023/24. The report also seeks approval of the Prudential Indicators results for 2023/24 in accordance with the Prudential Code.

Summary

2. The financial year 2023/24 was yet another unprecedented year with regards to treasury management. With the Ukraine conflict continuing, events in the Middle East, cost of living increases and inflation taking time to recover, the markets have been quite cautious. The bank rate continued to rise steadily throughout the early part of the year starting the year at 4.25% before stabilising and finishing at 5.25%. This has led to borrowing rates increasing and to some significant financial challenges throughout the year. These challenges are expected to continue into 2024/25 with the cost of borrowing expected to remain high until at least the September, possibly even later. Although the returns for cash investments have also increased due to higher interest rates they still remain below the cost of borrowing and these are declining at a much faster rate than the cost of borrowing.
3. During 2023/24 the Council complied with its legislative and regulatory requirements. The borrowing need (**Table 1**) was only increased for capital purposes.
4. At 31 March 2024 the Council's external debt was £152.878m which is £14.864m more than the previous year. This increase relates to the progression of various capital schemes and the rise in the costs of these schemes due to inflationary pressures. The average interest rate for borrowing increased from 2.41% in 2022/23 to 2.65% in 2023/24. Investments totalled £36.369m at 31 March 2024 (£40.044m at 31 March 2023) earning interest of 5.09% on short term cash investments and 0.72% on Property Fund units net of costs. As per table 7 the budgeted return on Property Funds was 0.54% so this is better than forecast.
5. Financing costs have been reduced during the year and a reduction of £0.735m has been achieved from the original MTFP and transferred to an IFRS9 reserve to manage any future fluctuations arising from the capital values of property funds. The reduction in budget is a mixture of reduced interest charges on debt as well as increased investment income.

Recommendations

6. It is recommended that:
 - (a) The outturn 2023/24 Prudential Indicators within this report and those in **Appendix 1** be noted.
 - (b) The Treasury Management Annual Report for 2023/24 be noted.
 - (c) This report to be forwarded to Cabinet and Council, in order for the 2023/24 Prudential Indicators to be noted.

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 requirements of the Local Government Act 2003.

Elizabeth Davison
Group Director of Operations

Background Papers

- (i) Accounting Records
- (ii) Annual Investment Strategy 2023/24
- (iii) Prudential Indicators and Treasury Management Strategy Report 2023/24

Judith Murray: Extension 5204

S17 Crime and Disorder	This report has no implications for crime and disorder
Health and Well Being	There are no issues relating to health and wellbeing which this report needs to address
Carbon Impact and Climate Change	There are no issues relating to carbon impact
Diversity	There are no specific implications for diversity
Wards Affected	The proposals affect all wards
Groups Affected	The proposals do not affect any specific group
Budget and Policy Framework	The report does not change the Council's budget or Policy framework but needs to be considered by Council
Key Decision	This is not an Executive decision
Urgent Decision	This is not an Executive decision
Council Plan	The proposals in the report support delivery of the Council Plan through appropriate and effective deployment of the Councils Resources
Efficiency	The report outlines movements in the national economic outlook that have enabled officers to take advantage of different types of Investments and changing interest rates to benefit the Revenue MTFP.
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 report summarises:
 - (a) Capital expenditure and financing for 2023/24
 - (b) The Council's overall borrowing need
 - (c) Treasury position at 31 March 2024
 - (d) Prudential indicators and compliance issues
 - (e) The economic background for 2023/24
 - (f) A summary of the Treasury Management Strategy agreed for 2023/24
 - (g) Treasury Management activity during 2023/24
 - (h) Performance and risk benchmarking
9. Throughout this report a number of technical terms are used, a glossary of terms can be found at the end of this report.

The Council's Capital Expenditure and Financing 2023/24

10. The Council undertakes capital expenditure on long term assets, which is financed either:
 - (a) Immediately through capital receipts, capital grants, contributions and from revenue; or
 - (b) If insufficient financing is available, by borrowing.
11. Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council. The wider treasury activities also include managing the Council's cash flow, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost and then optimise performance.
12. Capital Expenditure forms one of the prudential indicators that are used to regulate treasury activity. Table 1 shows total capital expenditure and how this was financed, compared with what was expected to be spent and how this would have been financed. Actual expenditure was £20.732m less than planned, mostly down to slippage in the HRA, Station redevelopment, Railway Heritage Quarter and some Towns Fund initiatives. However, the mix of funding differs from that which was expected as some schemes progressed quicker than others. This impacted on the borrowing needed to fund expenditure which was £9.808m higher than initially anticipated.

Table 1 – Capital Expenditure and Financing

	2022/23	2023/24		
	Outturn £m	Revised Estimate £m	Outturn £m	Variance £m
General Fund Capital Expenditure	40.984	56.727	39.361	(17.366)
HRA Capital Expenditure	14.708	24.535	13.753	(10.782)
Loans to Joint Ventures etc	4.944	0.034	7.450	7.416
Total Capital Expenditure	60.636	81.296	60.564	(20.732)
Resourced by:				
Capital Receipts GF	0.623	5.158	2.491	(2.667)
Capital receipts Housing	0.433	0.433	0.00	(0.433)
JV Loans Repaid	5.073	1.000	0.500	(0.500)
Capital Grants	34.466	32.851	29.045	(3.806)
Capital Contributions	0.407	0.000	0.261	0.261
Revenue Contributions - GF	0.187	0.403	1.168	0.764
Investment Fund - Housing	0.000	0.000	0.000	0.000
Revenue Contributions - HRA	13.289	24.077	8.003	(16.074)
Self-Financing - GF	0.000	16.036	7.951	(8.085)
Total Resources	54.478	79.958	49.418	(30.540)
Borrowing needed to finance expenditure	6.158	1.338	11.145	9.808

The Council's Overall Borrowing Need

13. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). The figure is a gauge for the Council's debt position. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents 2023/24 and prior years' net capital expenditure which has not yet been paid for by revenue or other resources.
14. Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the government, through Public Works Loan Board (PWLb), or the money markets) or utilising temporary cash resources within the Council.
15. The Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account borrowing need, (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

16. The total CFR can be reduced each year through a Voluntary Revenue Provision (VRP) or by the application of additional capital financing resources (such as unapplied capital receipts).
17. The Council’s CFR for the year is shown in Table 2 and represents a key prudential indicator. The CFR outturn for 2023/24 is £233.974m which is £0.325m higher than approved due to a decrease in estimated JV loan repayment and a decreased borrowing requirement for HRA resulting in less MRP being charged than originally anticipated.

Table 2 - Capital Financing Requirement

	2022/23	2023/24		
	Outturn £m	Approved Indicator £m	31 March Actual £m	Variance £m
Opening Balance	224.285	228.660	228.660	0.000
Add Capital Expenditure financed by borrowing	11.232	11.987	11.645	(0.342)
Less repayment of JV loans	(5.073)	(1.000)	(0.500)	0.500
Less MRP/VRP GF	(0.000)	(4.299)	(4.299)	(0.000)
Less MRP/VRP Housing	(2.669)	(0.593)	(0.426)	0.167
Less MRP/VRP PFI	(1.115)	(1.106)	(1.106)	0.000
Closing balance	228.660	233.649	233.974	0.325

Treasury Position at 31 March 2024

18. Whilst the measure of the Council’s underlying need to borrow is the CFR, the Group Director of Operations can manage the Council’s actual borrowing position by:
 - (a) Borrowing to the CFR level; or
 - (b) Choosing to utilise some temporary cash flows instead of borrowing (“under borrowing”); or
 - (c) Borrowing for future increases in CFR (borrowing in advance of need, the “over borrowed” amount can be invested).
19. The Council’s treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting and through officer activity detailed in the Council’s Treasury Management Practices.
20. The Council’s total debt outstanding at 31st March 2024 was £152.878m. In addition to this, a liability of £7.011m relating to the PFI scheme and Finance Leases brings the total to £159.889m. The Council’s revised CFR position was estimated to be £233.649m, however, the actual out turn position was £233.976m. When comparing this to our actual

borrowing of £159.889m this meant that the Council was “under borrowed” by £74.087m. This “under borrowed” amount was financed by internal borrowing which means that the amount that could have been invested externally was reduced to cover this. The reduced under borrowed position still has the dual effect of reducing costs to the MTFP because borrowing costs are generally greater than investment returns and it reduces counterparty risk by reducing our exposure to banks and other financial institutions.

21. The treasury position at 31 March 2024, including investments compared with the previous year is shown in table 3 below.

Table 3 – Summary of Borrowing and Investments

Treasury Position	31 March 2023		31 March 2024	
	Principal £m	Average Rate %	Principal £m	Net Annualised Average Rate %
General Debt - Fixed Rate Debt, Market and Public Works Loan Board (PWLB)	113.014	2.53%	127.878	2.65%
Property Fund Borrowing	25.000	1.65%	25.000	2.60%
Total Debt	138.014	2.41%	152.878	2.61%
Cashflow Investments up to 6 months	10.045	2.88%	6.370	5.09%
Capital Investments over 6 months	0.000	0.00%	0.000	0.00%
Property Fund Investment - net of costs	29.999	1.99%	29.999	0.72%
Total Investments	40.044		36.369	
Net borrowing position	97.970		116.509	

Prudential Indicators and Compliance Issues

22. Some prudential indicators provide an overview while others are specific limits on treasury activity. These indicators are shown below:
23. **Gross Borrowing and the CFR** – in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2023/24. The table below highlights the Council’s gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 4 – Gross Borrowing Compared with CFR

	31 March 2023 Actual £m	31 March 2024 Approved Indicator £m	31 March 2024 Actual £m
Gross Borrowing Position	138.014	141.014	152.878
PFI and Finance Lease Liability	8.117	7.011	7.011
Total	146.131	148.025	159.889
CFR	228.660	233.649	233.976
(Under)/over funding of CFR	(82.529)	(85.624)	(74.087)

24. **The Authorised Limit** – The Authorised Limit is the “Affordable Borrowing Limit” required by section 3 of the Local Government Act 2003. The Council does not have power to borrow above this level.
25. **The Operational Boundary** – The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are both acceptable, subject to the Authorised Limit not being breached.
26. **Actual financing costs as a proportion of net revenue expenditure** - This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue expenditure. The actual for this indicator has risen from the previous year due to an increase in the Financing costs outturn.

Table 5 – Key Prudential Indicators

	Actual 2022/23 £m	Original Approved Limits 2023/24 £m	Revised Approved Limits 2023/24 £m	Actual Total Liabilities Borrowing + PFI/ leases 2023/24 Maximum £m
Approved Indicator – Authorised Limit	240.093	247.730	245.331	245.675
Approved Indicator – Operational Boundary	146.131	183.077	148.025	159.889
Financing costs as a percentage of net revenue expenditure	1.69%	3.82%	4.47%	4.47%

27. At 31 March 2023 the total liabilities were £152.878m which is below both the approved Authorised Limit and the approved Operational Boundary. The Operational Boundary is the point at which we expect borrowing to be, but it can be lower or higher. Borrowing cannot exceed the Authorised Limit.

28. A further four prudential indicators are detailed in **Appendix 1**.

Economic Background for 2023/24

29. A summary of the general economic conditions that have prevailed through 2023/24 provided by Link Asset Services, the Council's treasury management advisors is attached at **Appendix 2**.

Summary of the Treasury Management Strategy agreed for 2023/24

30. The revised Prudential Indicators anticipated that during 2023/24 the Council would need to borrow £1.338m to finance part of its capital programme, whereas the actual outturn figure was £9.808m. The reason for this change is at the time of writing the revised Prudential Indicator report, the Council had not received a revised cashflow for the Joint Venture so were not certain as to when further development was due to commence.

31. The Annual Investment Strategy stated that the use of specified (usually less than one year) and non-specified (usually more than one year) investments would be carefully balanced to ensure that the Council has appropriate liquidity for its operational needs. In the normal course of the Council's business it is expected that both specified and non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

32. Longer term instruments (greater than one year from inception to repayment) will only be used where the Council's liquidity requirements are safeguarded. An estimate of long term investments (over one year) were included in the report on the Prudential Indicators update these were as follows £50m for 2022/23 and £50m for 2023/24. No other investments of over one year duration have been made during 2023/24.

Treasury Management Activity during 2023/24

Borrowing Strategy

33. During 2023/24, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the CFR), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.

34. A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

35. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years (see table 6 below). However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Table 6 – net borrowing

	Market Loans (incl. other Local Authorities)			Total
	Amount £m	Length of Loan	Interest Rate %	£m
New Loans Taken	5.000	2 months	4.60%	34.000
	5.000	4 months	4.85%	
	2.000	3 months	5.65%	
	3.000	3 months	5.70%	
	5.000	1 month	4.65%	
	2.000	3 months	6.00%	
	2.000	3 months	6.50%	
	5.000	3 months	6.75%	
	5.000	3 months	6.50%	
Total New Loans				34.000
Loans Repaid	(5.000)	1 year	1.25%	(32.000)
	(5.000)	2 months	4.85%	
	(5.000)	5 years	1.82%	
	(5.000)	1 year	2.30%	
	(2.000)	1 year	3.00%	
	(5.000)	4 months	4.85%	
	(2.000)	3 months	5.65%	
	(3.000)	3 months	5.70%	
Total New Borrowing				2.000

36. **Summary of Debt Transactions** –The consolidated rate of interest increased from 2.41% to 2.65% due to increased interest rates in the market.

Investment Position

37. **Investment Policy** – the Council’s investment policy for 2023/24 is governed by the DLUHC Guidance which has been implemented in the annual investment strategy for 2023/24 approved by Special Council on 16 February 2023. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

38. The investment activity during the year conformed to the approved Strategy and the Council had no liquidity difficulties.
39. Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for. Starting April at 4.25%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by the end of the financial year. It has remained at this level and is unlikely to decrease until later in the 2024/25.
40. With bond markets selling off, equity valuations struggling to make progress as did property funds, although there have been some spirited, if temporary, market rallies from time to time. The more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used and Money Market Funds have also provided decent returns in close proximity to Bank Rate for liquidity purposes.
41. Throughout 2023/24 the Bank of England has maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress
42. While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.
43. Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.
44. Investments held by the Council consist of temporary surplus balances, capital receipts and other funds. 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, other local authorities and bank short term notice accounts. Short term investments of up to a year earned interest of £602k on an average balance of £11.832m which equated to an annual average interest rate of 5.09%.
45. The Council also has longer term investments which consist of the property funds and the returns are shown below in **Table 7**.
46. Further to the 2024/25 Treasury Management Strategy report, where it was noted that the Lothbury Property Fund was exploring a potential merger with the UBS Triton Property Fund, unfortunately this proposal did not receive sufficient support from the membership and therefore the Lothbury property fund was terminated in the first quarter of 2024/25. The Council will receive its share of the distributions of funds from the Lothbury as and when assets are sold. An initial distribution was received in June 2024 which the Council has invested in the UBS Triton Property fund. The investment of future

distributions will be decided as and when they are received, in consideration of the best investment opportunities and the Council’s financial position at the date of receipt.

Table 7 – Longer Term 6 months to 5 years - Property Funds

	Original Budget 2023/24	Actual 2023/24
Daily average level of Investments	£29.999m	£29.999m
Interest earned (gross)	1.038m	1.093m
Average Rate of Return on Investment Interest earned (gross)	3.46%	3.64%
Average Rate of Return on Investment (net of costs)	0.54%	0.72%

Performance and Risk Benchmarking

- 47. A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance.
- 48. The following reports the current position against the benchmarks originally approved.
- 49. Security – The Council’s maximum security risk benchmarks for the current portfolio of investments, when compared to historic default tables was set as follows:

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

- 50. **Table 8** shows that there has been a fluctuation in the historic levels of default over the year although still well below the benchmark. This is mainly due to some longer term investments actually being made for shorter terms i.e. up to six months rather than one year as these investments were better value than longer term investments and were also a better fit with how the Council was expecting to utilise investments. It also shows more emphasis being placed on counterparties with a higher credit rating.
- 51. The investment portfolio was maintained within this overall benchmark during this year as shown in **Table 8**.

Table 8

Maximum	Benchmark 2023/24	Actual June 2023	Actual October 2023	Actual December 2023	Actual March 2024
Year 1	0.077%	0.001%	0.000%	0.000%	0.000%

52. The counterparties that we use are all high rated therefore our actual risk of default based on the ratings attached to counterparties is virtually nil.
53. Liquidity – In respect of this area the Council set liquidity facilities/benchmark to maintain
- (a) Bank Overdraft £0.100M
 - (b) Liquid short term deposits of at least £3.000M available within a week’s notice.
 - (c) Weighted Average Life benchmark is expected to be 146 days with a maximum of one year.
54. Liquidity arrangements have been adequate for the year to date as shown in **Table 9**.

Table 9

	Benchmark	Actual June 2023	Actual October 2023	Actual December 2023	Actual March 2024
Weighted Average life	146 days to 1 year	113 days	118 days	0 days	0 days

55. 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.
56. Money Market Funds do not have a Weighted Average Life as they are on a call basis. During the latter part of the year the Council held it’s surplus cash in Money Market Funds as the rates for these were on par (sometimes even better) than short term investments, hence there is no Weighted Average Life in December 2023 and March 2024.
57. Yield - In respect of this area performance indicators relating to interest rates for borrowing and investments were set with reference to comparative interest rates. For borrowing, the indicator is the average rate paid during the year compared with the previous year. Investment rates are compared with a representative set of comparative rates.

Risk

58. The Council’s treasury management activities are regulated by a variety of professional codes, statutes and guidance:-
- (a) The Local Government Act 2003(the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity.
 - (b) The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2023/24).
 - (c) Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act.

- (d) The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities.
 - (e) The SI also requires the Council to operate the overall treasury function with regard to the CIPFA code of Practice for Treasury Management in Public Services.
 - (f) Under the Act the Department of Levelling Up, Housing & Communities has issued Investment Guidance to structure and regulate the Council's investment activities.
 - (g) Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.
59. The Council's Treasury Management function has complied with all of the relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable and its treasury practices demonstrate a low risk approach.
60. Officers of the Council are aware of the risks of passive management of the treasury portfolio and, with the support of Link Group, the Council's advisers, have proactively managed the debt and investments over the year.

Treasury Management Budget

61. There are three main elements within the Treasury Management Budget:-
- (a) Long Term capital investments including Property Funds which earns interest and dividends, this comprises of the Council's revenue and capital balances, unused capital receipts, reserves and provisions.
 - (b) Cash flow interest earned – the authority has consistently had 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 receipts of grants, the relationship between debtors and creditors, cashing of cheques and payments to suppliers.
 - (c) Debt servicing costs – This is the principal and interest costs on the Council's long term debt to finance the capital programme.

Table 10 - Changes to the Treasury Management Budget 2023/24

	£m	£m
Original Treasury Management Budget		3.477
Debt		
Reduced interest payable on debt	(0.428)	
Investments		
Increase in investment income including property funds etc	(0.320)	
Other Costs		
Increased brokerage charges	0.013	
Transfer to IFRS 9 Reserve	0.735	
Outturn Treasury Management Budget 2023/24		3.477

62. There has been a reduction in the interest payable on debt due to reduced debt levels as well as an increase in the interest received on investments due to the cashflow levels. An MRP charge was also necessary to correct previous years under-provision.
63. These reductions in interest payable and additional interest income have been transferred into the IFRS9 reserve to manage any future fluctuations within the capital values of the property funds.

Conclusion

64. The Council's treasury management activity during 2023/24 has been carried out in accordance with Council Policy and within legal limits. Financing costs have been reduced during the year and the reduction achieved from the original MTFP has been added to the existing IFRS9 reserve to manage any future fluctuation in the capital values of property funds.

Outcome of Consultation

65. No formal consultation has been undertaken regarding this report.

Additional Prudential Indicators not reported in the body of the report.

		2022/23 Actual	2023/24 Approved Indicator	2023/24 Outturn
1	limits on fixed interest rates	88%	100%	79%
2	limits on variable interest rates	12%	40%	21%
3	Maturity structure of fixed interest rate borrowing (upper Limit)			
	Under 12 months	12%	40%	21%
	12 months to 2 years	12%	50%	21%
	2 years to 5 years	20%	60%	26%
	5 years to 10 years	27%	80%	31%
	10 years and above	100%	100%	100%
4	Maximum Principal funds invested greater than 364 days	£50m	£50m	£50m

The Economy and Interest Rates

UK. Economy.

Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East, UK interest rates have continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2023/24.

Markets have sought an end to central banks' on-going phase of keeping restrictive monetary policy in place on at least one occasion during 2023/24 but to date only the Swiss National Bank has cut rates and that was at the end of March 2024.

UK, EZ and US 10-year yields have all stayed stubbornly high throughout 2023/24. The table below provides a snapshot of the conundrum facing central banks: inflation is easing, albeit gradually, but labour markets remain very tight by historical comparisons, making it an issue of fine judgment as to when rates can be cut.

The Bank of England sprung no surprises in their March meeting, leaving interest rates at 5.25% for the fifth time in a row and, despite no MPC members no longer voting to raise interest rates, it retained its relatively hawkish guidance. The Bank's communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target. However, although the MPC noted that "the restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures", conversely it noted that key indicators of inflation persistence remain elevated and policy will be "restrictive for sufficiently long" and "restrictive for an extended period".

Of course, the UK economy has started to perform a little better in Q1 2024 but is still recovering from a shallow recession through the second half of 2023. Indeed, Q4 2023 saw negative GDP growth of -0.3% while y/y growth was also negative at -0.2%.

But it was a strange recession. Unemployment is currently sub 4%, against a backdrop of still over 900k of job vacancies, and annual wage inflation is running at above 5%. With gas and electricity price caps falling in April 2024, the CPI measure of inflation - which peaked at 11.1% in October 2022 - is now due to slide below the 2% target rate in April and to remain below that Bank of England benchmark for the next couple of years, according to Capital Economics. The Bank of England still needs some convincing on that score, but upcoming inflation and employment releases will settle that argument shortly. It is noted that core CPI was still a heady 4.5% in February and, ideally, needs to fall further.

Shoppers largely shrugged off the unusually wet weather in February, whilst rising real household incomes should support retail activity throughout 2024. Furthermore, the impact of higher interest rates on household interest payments is getting close to its peak, even though fixed rate mortgage rates on new loans have shifted up a little since falling close to 4.5% in early 2024.

From a fiscal perspective, the further cuts to national insurance tax (from April) announced in the March Budget will boost real household disposable income by 0.5 - 1.0%. After real household disposable income rose by 1.9% in 2023, Capital Economics forecast it will rise by 1.7% in 2024 and by 2.4% in 2025. These rises in real household disposable income, combined with the earlier fading of the drag from previous rises in interest rates, means GDP growth of 0.5% is envisaged in 2024 and 1.5% in 2025. The Bank of England is less optimistic than that, seeing growth struggling to get near 1% over the next two to three years.

As for equity markets, the FTSE 100 has risen to nearly 8,000 and is now only 1% below the all-time high it reached in February 2023. The modest rise in UK equities in February was driven by

strong performances in the cyclical industrials and consumer discretionary sectors, whilst communications and basic materials have fared poorly.

Despite its performance, the FTSE 100 is still lagging behind the S&P 500, which has been at an all-time high for several weeks.

USA. Despite the markets willing the FOMC to cut rates as soon as June 2024, the continued resilience of the economy, married to sticky inflation, is providing a significant headwind to a change in monetary policy. Markets currently anticipate three rate cuts this calendar year, but two or less would not be out of the question. Currently, policy remains flexible but primarily data driven.

In addition, the Fed will want to shrink its swollen \$16 trillion balance sheet at some point. Just because the \$ is the world's foremost reserve currency (China owns over \$1 trillion) does not mean the US can continually run a budget deficit. The mix of stubborn inflation and significant treasury issuance is keeping treasury yields high. The 10 year stands at 4.4%.

As for inflation, it is currently a little above 3%. The market is not expecting a recession, but whether rates staying high for longer is conducive to a soft landing for the economy is uncertain, hence why the consensus is for rate cuts this year and into 2025...but how many and when?

EU. Although the Euro-zone inflation rate has fallen to 2.4%, the ECB will still be mindful that it has further work to do to dampen inflation expectations. However, with growth steadfastly in the slow lane (GDP flatlined in 2023) a June rate cut from the current 4% looks probable.

Glossary of Terms

Capital Financing Requirement (CFR)	This is the Councils underlying need to borrow which can be traced back to the Councils Balance Sheet and the value of the Councils assets which have yet to be paid for.
Minimum Revenue Provision (MRP)	Monies set aside from the revenue budget to repay accumulated debt.
Call	Investments that can be returned without a period of notice
Counterparty	Institutions, Banks etc. that with make investments or take out loans with.
Specified Investments	Investments in Banks and Building Societies with a high credit rating for periods of less than 1 year
Non-Specified Investments	Investments in un-rated Building Societies and any investments in Banks and Building Societies for more than 1 year.
Operational Liquidity	Working Cash flow
Authorised Limit	Maximum amount of borrowing that could be taken in total.
Operational Boundary	The expected amount of borrowing assumed in total.
PWLB	Public Works Loan Board. The Governments lending body to Local Authorities

Discount	Amount payable by the PWLB when loans are repaid if the current loan rate is less than the rate borne by the original debt
Yield Curve	Is a graph that shows the relationship between the interest rate paid and length of time to repayment of a loan.
Gilts	Government Borrowing Bonds
SONIA	The Sterling Overnight Index Average – generally a replacement set of indices (for LIBID) for those benchmarking their investments.
Spreads	The difference between the highest rate of interest and the lowest rate of interest earned/charged on any one particular maturity period i.e. 1 year, 2 year 5 year etc.
LIBID	London Interbank Bid Rate. The average rate at which a bank is willing to borrow from another bank.
LIBOR	London Interbank Offer Rate. The average rate at which a bank is willing to lend to another bank. LIBOR is always higher than the corresponding bid rate and the difference between the two rates is known as the spread.

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