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DARLINGTON
Borough Council

Audit Committee Agenda

2.00 pm

Monday, 20 January 2025

Council Chamber, Town Hall, Darlington DL1 5QT

Members of the Public are welcome to attend this Meeting.

1. Introductions/Attendance at Meeting

2. Declarations of Interest

3. Vice-Chair – To appoint a Vice-Chair for this Committee for the Municipal Year 2024/25.

4. To approve the Minutes of this Audit Committee held on 4 November 2024 –
   (i) To approve the Minutes of this Audit Committee Special Meeting held on 25 November 2024 (Pages 3 - 12)

5. Audit Services - Activity Report – Report of the Audit and Risk Manager (Pages 13 - 22)

6. Final Accounts Timetable for the year ended 31 March 2025 – Report of the Executive Director Resources and Governance (Pages 23 - 28)

7. Half Yearly Risk Management Report 2024 2025 – Report of the Chief Executive (Pages 29 - 50)

8. Prudential Indicators and Treasury Management Strategy Report 2025-26 – Report of the Executive Director Resources and Governance
   (Pages 51 - 84)

9. 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

10. Questions

Luke Swinhoe
Assistant Director Law and Governance

Friday, 10 January 2025

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, 4 November 2024

PRESENT – Councillors , Baker, Garner, Henderson, Keir, McGill and Porter

ABSENT – Councillors Durham

ALSO IN ATTENDANCE – Councillor Porter

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), Andy Evans (Head of ICT Services - Xentrall Shared Services), Brett Nielsen (Assistant Director Resources),Judith Murray (Finance Manager), Olivia Hugill (Democratic Officer) Gavin Barker (Forvis Mazars) and Campbell Deardren (Forvis Mazars)

A14 DECLARATIONS OF INTEREST

There were no declarations of interest reported at the meeting.

A15 TO APPROVE THE MINUTES OF THIS AUDIT COMMITTEE HELD ON 22 JULY 2024

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

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

A16 COUNCIL CONSTITUTION UPDATE

The Assistant Director Law and Governance submitted a report (previously circulated) for Members to consider the Constitution update in relation to the Audit Committee.

The report included the proposal about the terms of reference of the Audit Committee. The report explained that the rationale for the change was to make the terms of reference easier to read and align with the formats used for other committees.

The report explained that the amended text was based on the terms of reference that were used by Stockton on Tees Council but with some minor amendments. Other changes the report included was the proposals concerning the Budget and Policy Framework, Whistleblowing Policy, Etc.

Members discussed how Audit Committee Terms of Reference did not include procedures, but all other Committees did. Officers advised that Audit Committee has never held procedures, however if this was something that Members would like it could be considered.

Members discussed the CIPFA (Chartered Institute of Public Finance and Accountancy) guidance for Audit Committee and if this could be referred into the Constitution update.

Conversation ensued around the distribution and allocation of government grant funding, Members wanted to understand at what amount of funding are other Members and Portfolio Holders notified.

RESOLVED – That Members noted the report.

A17 REVIEW OF ANTI-FRAUD AND CORRUPTION ARRANGEMENTS

The Audit and Risk Manager submitted a report (previously circulated) to advise Members of the Anti-Fraud and Corruption Arrangements for the period 2024/25.

It was reported that estimates suggested that in excess of £300m was lost to fraud in local government and it was imperative to ensure that the Council's funds were not being lost to fraudsters.

Guidance and advice to authorities on managing its fraud risk was provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) which also co-ordinated an annual survey of fraudulent activity detected across local government and which had published a Code of Practice on Managing the Risk of Fraud and Corruption in October 2014.

It was reported that the Council's 2024/25 Strategy (also previously circulated) had been developed in line with CIPFA's code of practice and that the format of the strategy had been redefined from previous versions to improve its visual appeal and make it more effective.

The submitted report also gave an update on the progress against the actions identified in the 2023/24 Strategy.

RESOLVED – That the 2024/25 Anti-Fraud and Corruption Strategy be noted.

A18 ANNUAL STATEMENT OF ACCOUNTS 2022/23

The Finance Manager gave a verbal update to the Committee regarding the Annual Statement of Accounts 2022/23.

It was explained the upcoming Special Meeting of the Audit Committee on the 25th of November 2024, will give the report of the Annual Statement of Accounts 2022/23 from the External Auditors Ernst and Young (EY) and that officers had been advised that this is on track.

A19 INFORMATION GOVERNANCE WORK PROGRAMME - PROGRESS REPORT (SIX MONTHLY)

The Executive Director of Resources and Governance submitted a report (previously circulated) providing a six monthly update to the Audit Committee as required by The Systems and Information Governance Group (SIGG) and to outline 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, of the ongoing work, the area of highest priority was the Microsoft Office 365 Programme which was being rolled out across the Council, with a number of services now being fully operational through a Microsoft teams interface having had all files migrated into a Microsoft Teams structure

Discussion ensued around the backup of systems, what would happen if there would be a cyber attack on Microsoft 365.

Conversation ensued around Artificial Intelligence, officers are aware of the potential benefits but until there is a better understanding, AI has been blocked on Council software.

RESOLVED – That the report and progress on the implementation of the Information Governance Programme be noted.

A20 ICT STRATEGY - IMPLEMENTATION PROGRESS - SIX MONTHLY

The Head of ICT Services – Xentrall Shared Services submitted a report (previously circulated) to provide a six-monthly report to the Audit Committee 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; and Council Service Development and Transformation.

This submitted report summarised progress on the three strategic themes of the Strategy.

RESOLVED – That the report be noted.

A21 MID-YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT 2024/25

The Executive Director of Resources and Governance submitted a report (previously circulated) to seek Members approval of the revised Treasury Management Strategy, Prudential Indicators and provide Members with a mid-yearly review of the Council's borrowing and investment activities. It was reported that this Committee were requested to forward the revised Strategy and indictors to Cabinet and Council for their approval and to note the changes to the MTFP with regard to the Treasury Management Budget (Financing Costs).

It was reported that the mandatory Prudential Code, which governed Council's borrowing, required Council approval of controls, called Prudential Indicators, which related to capital spending and borrowing; and the indicators were set out in three statutory reports namely, a forward looking annual treasury management strategy, a backward looking annual treasury management report and this mid-year update (which follows Council approval in February 2024 of the 2024/25 Prudential Indicators and Treasury Management Strategy).

The key objectives of the three annual reports were set out in the submitted report, together with the key proposed revisions to the prudential indicators which related to a reduction in the Operational Boundary to £179.323 million and the Authorised Limit to £259.628 million to allow for any additional cashflow requirement.

Officers presented update information at the meeting and answered a number of technical questions from Members in relation to the report.

RESOLVED – That the submitted report be referred to Council via Cabinet and that it be advised that this Audit Committee approves the revised prudential indicators and limits; and notes the Treasury Management Budget (Financing Costs) projected outturn.

A22 ETHICAL GOVERNANCE AND MEMBER STANDARDS - UPDATE REPORT (6 MONTHLY)

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

The submitted report gave members an update of information about issues relevant to member standards since matters were reported to the Committee in April 2024 and also set out a number of datasets of ethical indicators to assist in monitoring the ethical health of the Council.

By reviewing these indicators it is hoped to be able to identify any unusual or significant trends or changes in the volume of data recorded for the relevant period that might provide an alert to any deterioration in the ethical health of the authority; and it was reported that there were no particular issues of concern that had been identified from reviewing the data.

Discussion ensued around the code of conduct, Members wanted to know if there was any training available regarding when the code of conduct does or does not apply. Conversation carried out with regards to complaints and whether the complaint form included the code of conduct.

Members discussed the number of complaints with regards to Housing and whether the reasoning for this was due to COVID and how there is a bag log with repairs.

RESOLVED – That the report be noted.

A23 INTERNAL AUDIT ACTIVITY REPORT

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

The submitted report outlined progress to date on audit assignment work, consultancy/contingency activity and highlighted the change in approach from traditional audit assignments to individual control testing and reporting and the different approach in terms of reporting on activity to be developed further in the coming months; and the move away from annual audit planning to quarterly planning to enable the service to respond more effectively to the changing risk environment.

Also previously circulated was detailed feedback on the performance of the service and the position in relation to completion of audit work.

RESOLVED – That the activity and results be noted.

A24 AUDIT PROGRESS REPORT - MAZARS

The Audit Director from Forvis Mazars gave an update regarding the audit planning and risk assessment for the 2023/24 value for money work.

The report from Mazars explained that following the consultation initiated in February, the Government published its proposals to address the significant backlog in local government annual accounts audits.

The report detailed the impacts on the 2023/24 audit of Darlington Council, The value for money arrangements, the identified risks of significant weakness in arrangements and the National Publications.

It was also reported that a Special Meeting of this Committee should be arranged to sign of the 2023/24 accounts in February as the deadline for the accounts to be approved is the 28th of February.

Members wanted to understand whether the narrative will be written until the financial settlement had been received.

Members questioned whether any other local authorities were in a similar position with the backlog, and if there was any room for negotiations if the rates are rising.

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AUDIT COMMITTEE

Monday, 25 November 2024

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

APOLOGIES – Councillors Baker

OFFICERS IN ATTENDANCE – Lee Downey (Complaints and Information Governance Manager), Brett Nielsen (Assistant Director Resources), Judith Murray (Finance Manager), Campbell Dearden (Forvis Mazars), Caroline Mulley (Ernst and Young) and Olivia Hugill (Democratic Officer.

A25 DECLARATIONS OF INTEREST

There were no declarations of interest reported at the meeting.

A26 ANNUAL STATEMENT OF ACCOUNTS 2022/23

The Executive Director of Resources & Governance submitted a report (previously circulated) to present a report by the Council's external auditors, Ernst and Young LLP (EY) on the audit for the year ended 31 March 2023.

It was reported that; In accordance with the Accounts and Audit (Amendment) Regulations 2023, all Local Authorities were required to produce the draft annual Statement of Accounts by 31 May 2023 and an audited set published by 30 September 2023. As it had been previously outlined to this Committee, that due to national issues which led to a delay finalising the 2021/22 accounts and the subsequent delay commencing the 2022/23 accounts, EY were not in a position to deliver the audit by the statutory deadline.

The report explained that the backlog in the publication of audited accounts had reached an unacceptable level nationally, with the number of outstanding opinions as at the 30th of September 2023 standing at 918. In a bid to provide a solution the Accounts and Audit (Amendment) regulations 2024 provide for statutory backstop dates to help clear the backlog of audit and rebuild assurance. The first statutory 'backstop' date is to be the 13th of December, and it applied to all outstanding audits up to and including the 2022/23 accounts.

It was stated that following the completion of the 2021/22 accounts in April 2024 the Council offered their full support and additional resources to try and fully complete the 2022/23 audit before the backstop date. EY did not have the capacity or the resources available to schedule the 2022/23 audit, therefore they have not been able to complete a full audit, this had led EY to issue a disclaimer of opinion for the 2022/23 accounts.

The report clarified that EY are expected to; give a disclaimed opinion on the Council's 2022/23 accounts, to report that they have not identified any significant weaknesses in arrangements to secure value for money in its resources, and to confirm that the Council's Annual Governance Statement is not misleading or inconsistent with other information known to them.

Members wanted to understand what caused the delay with accounts, and whether any other local authorities were in the same position. Members asked Auditors EY what they had looked at in terms of value for money to give an understanding of what is left to be considered.

Members of the Committee were concerned about whether financial statements would be correct as a full audit had not been completed, and any potential impacts of not having a full audit on the Councils budget. Officers explained that they were confident with the figures included in the statement of accounts and the backstop arrangements allow auditors to rebuild assurance.

RESOLVED -

a) The Auditor's Completion Report for Those Charged With Governance for the Council's 2022/23 financial statements be noted.

b) Members note and approve the Letter of Representation in Appendix A of the Completion Report for Those Charged With Governance.

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

d) The Audit Committee is requested to note (and subsequently approve when the audit is complete) the attached IFRS compliant Statement of Accounts at **Annex 2** for the 2022/23 financial year.

A27 ANNUAL GOVERNANCE STATEMENT 2022/23

The Chief Executive submitted a report (previously circulated) seeking approval of the Council's draft Annual Governance Statement (AGS) (also previously circulated).

It was reported that most local authorities financial statements for 2022/23 remain unaudited, as a result of delays in the external audit process. Publication of the AGS follows the same timetable.

The Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021 require local authorities to prepare, approve and publish, each year an AGS. These regulations also determine the timetable for approval and publication and the Council must publish its draft AGS no later than 31 May and its final audited version no later than 13 December of the financial year immediately following the end of the financial year to which the statement relates.

It was also reported that as a consequence of the aforementioned delays the draft unaudited AGS was published on 30 June 2023.

The Council has updated paragraph 142 in the final 2022/23 AGS to read, the Council's external auditors Ernst and Young LLP (EY) are expected to give a *disclaimed* rather than an *unqualified opinion* on the Council's 2022/23 accounts by the target date of 13 December 2024. The Council has not identified any other significant governance issues pertinent to 2022/23 which would prompt an update to the AGS.

The Annual Governance Statement for 2022/23 outlined the Council's responsibilities, explained the purpose of the governance framework; set out the key elements; detailed the review of its effectiveness; highlighted any significant governance issues; and included a commitment by the Leader of the Council and the Chief Executive to ensure the continuous improvement of the system in place.

RESOLVED – That the draft Annual Governance Statement for 2022/23, as appended to the submitted report, be approved.

A28 SUPPLEMENTARY ITEMS

Councillor Garner announced his resignation as Vice Chair of the Audit Committee. For the next Ordinary Meeting of Audit Committee, the agenda will include the appointment of Vice Chair.

AUDIT COMMITTEE
20 JANUARY 2025

ITEM NO.

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.

4. Members consider if there are any issues identified that they wish to escalate for further consideration.

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) Departmental Audit Reports

Andrew Barber: Extension 156176

Council Plan	No direct impact but does provide assurances on the delivery of Council Plan objectives.
Addressing inequalities	No specific equality impact however controls to manage equality are included in the programme
Tackling Climate Change	No specific climate change impact however controls to manage climate change are included in the programme
Efficient and effective use of resources	The report provides assurance on the controls in place to deliver the effective use of resources
Health and Wellbeing	There is no specific health and well-being impact.
S17 Crime and Disorder	Other than any special investigation work there is no crime and disorder impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not recommend a change to the Council's budget or policy framework
Key Decision	This is not a Key Decision
Urgent Decision	This is not an Urgent Decision
Impact on Looked After Children and Care Leavers	This report has no direct impact on Looked After Children or Care Leavers, however results of testing provide assurance over how the impact is being managed.

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. The report provides members with detailed feedback on the performance of the service and the position in relation to completion of audit work.

8. The first section of the report is to provide members with feedback on the management of the risks on the corporate risk register. Members are reminded that this is not an assessment of the risk itself but an assessment of some of the controls in place to manage the risk.

Overall Position
We are seeing good levels of assurance against each of the risks.
Detailed Commentary
There is nothing to bring to members attention at this time.

Assurance by Risk

Rsk Ref	Risk	Assurance
SR1	Implementation of recommendations from the Capital Process Review is needed to improve effective capital project management	100.00
SR10	Planning Performance at risk of Standards Authority intervention	100.00
SR11	VAT partial exemption breech due to exempt VAT being close to the 5% limit	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	90.00
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	100.00
SR26	Failure to respond appropriately to safeguard vulnerable adults, in line with national legislation and safeguarding adults procedures	100.00
SR27	Failure to respond appropriately to safeguard vulnerable children, in line with national legislation and safeguarding children, thresholds and procedures.	100.00
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	100.00
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	100.00
SR40	Managing the impact of severe weather events	100.00
SR42	Risk of enforcement action from the ICO	87.18
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.	100.00
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

9. The next section breaks down audit results against a set of key governance processes. We have updated our list of themes primarily to provide a greater degree of clarity and aid understanding.

Overall Position

The majority of themes are showing a positive level of assurance overall, there is one area shown as below 70% and has been reported previously. There are 2 areas currently below 80%. The majority of controls in the High/Very High categories are showing as Green with no Reds.

Detailed Commentary

Application for a Service/Support - Transport policies were found to be out of date impacting on the appeals processes for transport support. Revised policy is at draft stage and out for consultation.

Regulatory Services - There are currently some backlogs being experienced in trading standards and environmental health linked to resourcing issues largely based on recruitment difficulties.

People - Backlogs still exist in dealing with adult social care cases, however this is reducing and being closely monitored with the largest backlog in OT.

New systems are being developed to manage supervisions within Children’s services.

There were some minor issues noted relating to employee induction which have been fed into the existing review of the workforce strategy.

We continue to note challenges in meeting the 95% completion rate for mandatory information governance training. Some minor issues were also noted with the management of DBS checks.

Results by Theme

Theme	1 Red	2 Amber	3 Green	Total
Application for a Service/Support	1	6	26	33
Application for an Approval/Permission		3	27	30
Assets		2	21	23
Business Continuity		2	25	27
Corporate Governance		3	54	57
Finance	1		106	107
ICT		1	24	25
Information Governance		1	40	41
People	7	11	30	48
Performance Management	1		5	6
Procurement/Contracts		2	22	24
Regulatory Services		3	11	14
Total	**10**	**34**	**391**	**435**

Assurance by Theme

Theme	Assurance
Application for a Service/Support	88.18
Application for an Approval/Permission	95.61
Assets	93.75
Business Continuity	97.75
Corporate Governance	98.57
Finance	99.43
ICT	98.80
Information Governance	98.58
People	69.00
Performance Management	90.63
Procurement/Contracts	95.31
Regulatory Services	84.15
Total	**93.01**

Overall Results

Status	1 Very Low	2 Low	3 Medium	4 High	5 Very High	Total
1 Red		2	8			10
2 Amber		16	12	4	2	34
3 Green	23	180	112	60	16	391
Total	**23**	**198**	**132**	**64**	**18**	**435**

Results in Period

Status	1 Very Low	2 Low	3 Medium	4 High	5 Very High	Total
1 Red		2	7			9
2 Amber		7	6	2		15
3 Green	1	18	20	6	3	48
Total	**1**	**27**	**33**	**8**	**3**	**72**

10. The next section looks at the status of recommendations shown by service area.

Overall Position

We continue to see a positive response from managers to the recommendations we make with low numbers of not implemented recommendations when we come to review implementation.

Detailed Commentary

The 4 recommendations that are marked as not implemented, these are longer scale pieces of work and progress is being made albeit a little slower than originally envisioned. I currently do not have any concerns regarding progress towards implementation of these recommendations and fully expect them to be implemented.

Recommendations

Service	Agreed	Draft	Implemented	Not Implemented	Risk Tolerated	**Total**
	2		1	1		**4**
Adults	2		4			**6**
Children's Services	4	1	4	1		**10**
Community Services	5	1	8			**14**
Economic Growth	1	2	6		1	**10**
Education	3					**3**
Housing & Revenue Services	1	1	5			**7**
Law & Governance			8	1		**9**
Public Health		1	1	1		**3**
Resources		2	2			**4**
Strategy, Performance & Communications	4		9		1	**14**
Transport & Capital Projects	1					**1**
Xentrall	1	1	4			**6**
Total	**24**	**9**	**52**	**4**	**2**	**91**

11. 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. A staff member has now commenced maternity leave and this accounts for the reduction in productivity levels and reduced spare capacity. The programme of work has been reviewed and it is anticipated there will be no impact

in being able to complete sufficient work within DBC to enable the annual opinion to be given.

Stewardship (Coverage)			Stakeholders		
Measure	Target	Actual	Measure	Target	Actual
Adequate Resources	15	7	Reporting	Qtrly	*
Portfolio Coverage	73	72	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%	69%
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

12. The final section of the report (Appendix A) is a full list of controls to be examined in the next period in priority order.

13. 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 currently on maternity leave, we have been able to manage the plan over the short-term to manage this. In addition to this we have another member of staff who is due to move onto flexible retirement in April, this has the potential to cause a greater resourcing issue, to manage this we will be looking to bring in an apprentice with the expectation that they will replace this auditor when they do retire.

14. Revised Global Standards for Public Sector Internal Audit – The revised standards become mandatory in April 2025. We have been reviewing the current position against these revised standards and I am pleased to report that overall, the service is in a very strong position to maintain compliance. The main area that required addressing is in relation to a new requirement to have a strategy in place for the service, whilst we have had a strategy in place this was less formally documented, a fully documented strategy will be presented at the next meeting for approval.

Outcome of Consultation

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

ID	Control	Frequency
88	An approved Council Plan is in place which sets out the priorities of the council.	3
32	Education, Health & Care Plans are appropriately monitored including an annual review process.	6
33	Education, Health & Care Plans are completed appropriately and in a timely fashion	6
78	Focussed financial support to commercial ventures.	6
116	Council employed drivers and passenger assistants hold the necessary DBS clearances, licences, qualifications and training.	6
166	Adult Services operational staff hold current DBS clearance and relevant qualifications.	6
189	Professionals are appropriately trained and qualified to undertake BIA/DoLS assessments.	6
270	Building control decisions are appropriately authorised and made in line with Building Regulations, with audit trails in place to support decisions made.	6
339	The employer makes the correct % contribution payment to the relevant pension fund on behalf of each employee within that scheme.	6
344	All new employees have been appropriately vetted before being employed.	6
417	Compliance with licence conditions is monitored and appropriate sanctions taken when necessary.	6
512	There is an appropriate system in place to manage building control appeals.	6
515	Fees for building control applications have been set appropriately.	6
526	Changes in circumstances for council tax reduction and housing benefit claimants are processed appropriately.	6
869	Museum cafe and confectionary takings are appropriately safeguarded and reconciled.	6
72	Treasury Management Strategy and its implementation in relation to investments meets the Prudential Code and Treasury Management Code of Practice.	12
79	Maintain formula and support for funding schools and high needs.	12
169	Appropriate financial monitoring is in place in respect of the Better Care Fund (BCF).	12
171	Non-financial targets as set out in the Better Care Fund (BCF) plan are being met.	12
251	Sufficient health & safety measures/risk assessments are in place/undertaken at individual adults establishments.	12
252	Continuity arrangements are in place to ensure adult direct services/provider services can continue in the event of short, medium and long term disruption.	12
272	Breaches of planning control are investigated and enforcement action initiated as necessary.	12
279	Privileged access to Active Directory administration functionality is appropriately controlled and secured.	12
304	Appropriate periodic IT Health checks (or other equivalent exercises) are undertaken in order to identify and categorise significant security issues/vulnerabilities. Work is then undertaken to remediate these issues/vulnerabilities where appropriate.	12
309	Adequate and appropriate change controls are in place.	12
397	Economic Growth Strategy and Economic Growth Plan is monitored and milestones achieved.	12
408	Monitor re-offending rates and target resources towards young people at risk of re-offending.	12
739	Treasury Management Strategy and its implementation in relation to borrowing meets the Prudential Code and Treasury Management Code of Practice.	12
863	Server operating systems approaching end of support are decommissioned in an appropriate and timely manner.	12
38	Plans are in place to manage the loss of a school and provide continuity of education.	18
59	Allocation of school budgets in line with funding formula.	18
69	Clear contract procedure rules.	18
89	Development of an appropriate risk assessed H&S audit programme.	18
115	Appropriate service risk assessments are undertaken within the Passenger Transport service, and measures are in place to ensure the health and safety of Council employees.	18
135	Civic enforcement decisions are consistent, fair, proportionate and necessary; in line with legislation.	18
147	Highway inspections are undertaken in accordance with an appropriate specified programme.	18
221	Information security and sharing protocols in relation to occupational health and employee therapy provision is in line with data protection legislation.	18
338	Pension deductions are taken each month from employee's pay at the appropriate rate.	18
341	The total contributions collected from both the employee and the employer are paid to the relevant pension fund in full.	18

ID	Control	Frequency
390	Commitment to road safety and reducing road casualties.	18
413	Licence applications are subject to appropriate review and approval, evidence of background and eligibility.	18
477	Information asset registers are in place for each service and are being complied with.	18
511	Inspections of building work are undertaken to ensure compliance.	18
527	Records relating to Council Tax Reduction and Housing Benefit are accurate and up to date.	18
531	Exclusions/Pupils at risk of exclusion are reviewed and action taken to address issues.	18
87	Co-ordinate complaints process.	24
90	Deliver health & safety training programme and provide advice and guidance materials.	24
150	Car Parking Strategy in place which is up to date and considers resident, disabled and general parking requirements.	24
151	Road closures are undertaken following appropriate consultation and required notifications are completed within relevant timescales.	24
155	Local Implementation Plan in place contributes to the delivery of the Tees Valley Strategic Transport Plan.	24
206	Communication activities are aligned with corporate priorities and are delivered consistently and effectively.	24
219	Information stored on the employee protection register is accurate, up to date and used appropriately.	24
317	All deductions other than pension deduction (control covered elsewhere) are supported by appropriate paperwork and details are promptly and accurately entered onto the system.	24
398	Local economic assessment provides an economic baseline to inform decision making.	24
407	Monitor trends in crime and anti-social behaviour and respond to emerging issues.	24
448	Crematorium operational controls are safe, effective and comply with Cremation Regulations.	24
497	Civic enforcement actions are appropriately and accurately recorded.	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
128	Operational procedures are in place and available to catering and cleaning staff.	48
441	Contingency plans are in place for the collection and disposal of waste.	48
514	An appropriate fee has been received for building control applications.	48
870	Museum cafe stock and inventory is effectively managed.	48
871	Procurement of museum catering supplies is in line with contract procedure rules.	48
1534	Corporate credit cards are issued solely for Council purposes to authorised users, with all transactions supported by receipts and subject to regular review and reconciliation.	48

AUDIT COMMITTEE
20 JANUARY 2025

FINAL ACCOUNTS TIMETABLE FOR THE YEAR ENDED 31 MARCH 2025

SUMMARY REPORT

Purpose of the Report

1. To provide Members with the Final Accounts Closedown Timetable for 2024/25. This timetable details the target dates for key actions in order to complete the Statement of Accounts (SoA) in line with statutory deadlines.

Summary

2. Under the regulations it is the responsibility of the Group Director of Operations to sign and certify the unaudited SoA 2024/25 by no later than 30 June 2025 and it is also the responsibility of the Audit Committee to approve the 2024/25 audited set of accounts on or before 27 February 2026.

3. The final accounts timetable serves as a tool for monitoring progress against the target dates to ensure compliance with the statutory deadlines. The enclosed timetable will aim to comply with the date of 30 June for the unaudited SoA so that there is less disruption to the normal work schedule of the Council.

Recommendation

4. Members are asked to note the key dates in the Final Accounts Timetable for 2024/25 detailed in Appendix 1.

Reasons

5. The recommendations are supported to provide the Audit Committee with evidence to reflect on progress in delivery of the 2024/25 Statement of Accounts.

Elizabeth Davison
Executive Director Resources and Governance

Background Papers

Code of Practice on Local Authority Accounting in the UK 2024/25

The Account and Audit (Amendment) Regulations 2024

Judith Murray: Extension 5204

Council Plan	The Council's financial statements contribute to all priorities outlined within the Council Plan.
Addressing inequalities	There is no impact as a result of this report.
Tackling Climate Change	There is no specific impact on climate change.
Efficient and effective use of resources	The SoA will be prepared efficiently with the most effective use of resources available.
Health and Wellbeing	There is no impact as a result of this report.
S17 Crime and Disorder	There are no implications for crime and disorder.
Wards Affected	This report does not affect any individual areas.
Groups Affected	This report does not impact on any specific groups.
Budget and Policy Framework	This report does not recommend any changes to the Council's budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

MAIN REPORT

6. The Accounts and Audit (Amendment) Regulations 2024 require that the responsible financial officer, by no later than the 30 June, signs and certifies that the 2024/25 SoA presents a true and fair view of the financial position of the Council for the year to 31 March previous, subject to the views of the External Auditor, Forvis Mazars.

7. The 2024 Regulations then require that by no later than 27 February 2026, approval needs to be given to the SoA by resolution of a committee, which for Darlington is the Audit Committee. This is likely to be a Special Audit Committee meeting as the normal meeting will be in January 2026. This approval will take into account the views of the External Auditor. The 2024 regulations also state that the audited 2024/25 SoA must be published by 27 February 2026.

8. The Final Accounts timetable **(Appendix 1)** is a tool for the effective management and monitoring of the process of closing the Council's accounts.

9. The timetable is compiled annually by Finance with input from services to ensure that deadlines are achievable and will lead to completion of a SoA for signing by the Section 151 Officer (the responsible financial officer) by the statutory deadline. New and amended processes are considered for the impact on the achievement of dates, as well as reference to the previous year's problems and meeting of deadlines.

10. The enclosed timetable will enable Finance to produce an unaudited SoA by the 30 June 2025, which will then not distract from the other 'business as usual' such as reviewing the Medium Term Financial Plan.

11. The Finance Manager closely monitors the achievement of the dates in the timetable throughout the final accounts period, following up delays and missed deadlines. This helps to ensure that the overall timetable will be achieved and to identify improvements that can be made to the process.

Appendix 1

2024/25 Accounts - General Closure Timetable

Date for Completion	Item
March	
28	On-line goods receipting of orders relating to 2024/25 to be completed (including order authorisation).
28	End of facility for on-line processing of purchase invoices in Business World On! relating to 2024/25 to be posted to period 12 of that year.
April	
4	All interface files posted to Council's General Ledger
4	Petty cash and stock valuation certificates, certified by authorised signatories, sent to Financial Services.
4	Details of purchase invoices and sundry debtor accounts relating to 2024/25 not paid by 31/03/2025 to be given to Departmental Finance Teams for provision in 2024/25 accounts (invoice values above £500 only).
11	Bank reconciliation to be completed
11	Work in progress, Retentions & Income in Advance from Building Services included in accounts for both trading and client accounts. Expenditure provisions and provision for future losses for Trading Accounts in Place based Services.
11	All expenditure and income relating to 2024/25 identified and included in accounts to enable progress of next stages of process.
11	Control accounts balanced and all holding accounts cleared.
11	Internal recharges completed including inter-departmental recharges.
11	Intra-departmental apportionments and reallocations completed
11	Capital Charges to revenue accounts
25	Comparison of out-turn income and expenditure with approved budgets - including analysis of significant variances and any resulting corrective action including coding corrections.
25	Departmental Financing of capital expenditure.

	30	**Accounts Closed**
May		
	1	Commence process of consolidation of individual cost-centre and subjective level accounts into statutory format for Statement of Accounts (SoA).
June		
	30	Produce signed unaudited Statement of Accounts.
Feb	16	Audit Committee Meeting – approval of Statement of Accounts (guide)
	28	Publication of audited Statement of Accounts (latest date**)**

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AUDIT COMMITTEE
20 January 2025

HALF YEARLY RISK MANAGEMENT REPORT 2024/25

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. The Council has seen an increase in the number of strategic risks identified as being above the 'risk appetite line'. Progress continues to be made within the Authority regarding the management of both strategic and operational risks.

Recommendation

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

Reasons

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) Annual Risk Management Report to Audit Committee January 2024

Lee Downey 5451

Council Plan	Maintaining an appropriate oversight of risk will help contribute to the delivery of the Council Plan Objectives.
Addressing Inequalities	The management of risk as detailed in this report will contribute to addressing inequalities.
Tackling Climate Change	The management of risk as detailed in this report will contribute to tackling climate change.
Efficient and effective use of resources	The management of risk as detailed in this report will ensure the Council uses its resources efficiently and effectively.
Health and Wellbeing	The management of risk as detailed in this report will contribute to the health and well-being of the population of Darlington.
S17 Crime and Disorder	The management of risk as detailed in this report will contribute to the prevention of crime and disorder.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not recommend a change to the Council's budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	For the purpose of the 'call-in' procedure this does not represent an urgent matter.
Impact on Looked After Children and Care Leavers	The management of risk as detailed in this report will contribute to the delivery of services to Looked After Children and 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 manging 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 with work continuing to embed a robust health and safety management system and promote a positive culture. To

date in 2024/25 the number of reports to the HSE, as required by the Reporting of Injuries Diseases and Dangerous Occurrences Regulations (RIDDOR) is 11. The 11 reportable accidents were six manual handling, two struck by, one slip, trip, fall, one physical assault and one scald.

12. RIDDOR requires employers to report certain diagnosed reportable diseases. There have been two reports to this point in 2024/25 a carpal tunnel syndrome, and a hand arm vibration diagnosis for two employees 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. Violence at work remains a risk to Council staff. Over 40 services have reported incidents in 2024/25, measures to reduce the risk of violence at work include environmental measures i.e. screens in the Customer Contact Centre, panic alarms, personal safety devices, risk management meetings, security, violence and aggression training, and the employee protection register.

15. A staff safety and security task and finish review was undertaken in Community Services, focusing on Culture and Leisure buildings, this proved a beneficial exercise, with learning shared across the venues and recognition that the provision of security has helped to prevent some situations escalating and ensure when challenging situations occur skilled/trained staff are available to respond. The Homeless and Civic Enforcement teams were also involved in the review and shared helpful information.

16. The programme of health and safety audits in 2024/25 also contains several legislative compliance audits; these include Manual Handling, Legionella, Fire and Violence at Work. A selection of services has undergone these focused audits, and actions/recommendations have been reported to management. Most audits have so far resulted in either full or substantial assurance.

17. The third Annual Report on the Street Work Permit Scheme is available on the Council's website. There are no issues highlighted within this report. The "Report It" website for highway and 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.

18. 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.

19. 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 years micro-asphalt programme which will comprise approximately 27,000m^2.

20. 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.

21. In relation to sickness absence, the half year position for days lost was 4.3% or 4.78 days per full time employee (FTE). As can be seen in the table below, from the information we received, although similar, we compare favourably with most of our neighbours.

Council	Actual Days lost 2023/24	Actual Days lost Half year 2024/25
Darlington	9.32	4.78
Hartlepool	10.31	5.16
Redcar & Cleveland	9.66	3.95
Stockton	10.8	4.80

22. 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.

23. The management of sickness absence is a high priority for managers, Occupational Health and Human Resources (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.

24. Together with the reactive measures above, HR 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 364 flu jabs to Council employees.

25. HR have a number of new initiatives which they plan to roll out during 2025, including an employee wellness fayre, taster sessions at the Dolphin Centre, further wellness campaigns and continued promotion of our wellness forum.

Conclusion

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

Outcome of Consultation

27. 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, SR54, SR55
	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, SR54, SR55
	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, SR54, SR55
	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, SR54, SR55
	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, SR54, SR55
	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, SR54, SR55
	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, SR54, SR55**	
	C Significant		**SR13, SR41, SR45**	**SR15, SR16, SR20, SR34, SR35, SR44**	
	D Low		**SR11, 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, SR51, 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
SR15 (CP2)	Inability to cope with significant increase in homelessness cases / Anthony Sandys	C – Significant / II – Critical = C/II	No movement	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 2025-2030 has been developed to address these issues.
SR16 (CP4, CP5)	Inability to contain placement costs for children looked after due to lack of sufficient in house placements / Chris Bell	C – Significant / II – Critical = C/II	No movement	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.
SR20 (CP3)	Increased demand for Adult Services impacts negatively on plans	C – Significant / II – Critical = C/II	No movement	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

	for budget efficiencies / Joss Harbron			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. The increased demand 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. Better Care Fund (BCF). 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. 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 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 Indictors 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 and reported to Cabinet through the Project Position Statement. 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.
SR35 **(CP1, CP6)**	Potential impact on public transport networks if commercial services do not recover or continue to receive support from	C – Significant / II – Critical = C/II	No movement =	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. Further funding from

	Government and routes are withdrawn / Ant Hewitt			Government has been provided for 2025/26 and we will be working with TVCA and operators to establish the best way to support the network.
SR44 (CP3)	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	C – Significant / II – Critical = C/II	No movement =	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 and Local Authority Information Return has been completed and shared with CQC. Staff are being prepared for inspection which will take place week commencing 20 January.
SR48 (CP1, CP2, CP3, CP4, CP5 & CP6)	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	B – High / II – critical = B/II	No movement =	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 uncertainty in Government funding this risk remains high. The 25/26 - 28/29 MTFP has been approved by Cabinet for consultation and includes further savings of over £20m across the four years of the plan, which along with estimated increased resources including a proposed Council Tax increase of 4.99% for 25/26 reduces the annual deficit from the previous MTFP. We have received the draft Local Government settlement for 2025/26 which includes additional resources further lowering the budget gap for 25/26, however uncertainty remains for future years funding allocations as the Government undertakes a full review of local government finance. Economic growth remains a key focus to generate additional income and work continues to review and challenge all service area expenditure to identify savings, efficiencies and different ways of providing services.
SR50	Modified opinion in relation to 2022/23 accounts /Brett Nielsen	B – High /III - Marginal = B/III	No movement	Due to national delays in the completion of the audit of accounts, following a consultation the new Government published proposals to address the significant backlog on 31 July. These measures included both legislative changes and the introduction of several statutory deadlines (backstop dates) to clear the backlog. For all outstanding accounts up to 2022/23 the deadline was set 13 December 2024, for 2023/24 the 28 February 2025 and 2024/25 27 February 2026. Further dates are provided for the 2025/26 to 2027/28 accounts. As our auditors were unable to complete a full audit of the 2022/23 accounts, Darlington were issued with a Disclaimer of opinion to complete the accounts within the first deadline. Darlington will also be issued with a disclaimed opinion for 2023/24 due to insufficient time to deliver audit procedures to give sufficient evidence for an unmodified opinion. The auditors are working with the Council to consider the practical steps to rebuild assurance in future years.

				As part of the backstop arrangements auditors are required to undertake value for money work and review the Annual Governance Statement (AGS). For 2022/23 our auditors have completed this work and not reported any significant weaknesses in arrangements to secure value for money in our use of resources and have confirmed that the AGS is not misleading or inconsistent.
SR54 (CP1, CP2, CP3, CP4, CP5 & CP6)	**New Risk** Potential increased ICT costs as a result of the limited number of corporate system suppliers in the market place moving to Software as a Service (SaaS) model / Neil Bowerbank	B – High / II – Critical = B/II	New Risk	We are actively monitoring supplier roadmaps where available and liaising with other local authorities to understand the financial implications that are emerging. Negotiations with system suppliers are common practice whenever contracts are renewed, but more time, planning, legal and procurement support for this may be required in the future. Alternative multi-council approaches to the purchase of corporate systems may need to be explored. The financial pressures the corporate software market is placing on local authorities and the limited competitive nature within the market will continue to be raised with Government through formal and informal channels.
SR55 (CP1, CP2, CP3, CP4, CP5 & CP6)	**New Risk** Likelihood of a Cyber Incident impacting on the Councils ability to deliver services to residents and fulfil its statutory obligations e.g. social care services, electoral services, benefit payments and council tax collection. Potentially leading to a risk to life, significant financial loss, reputational damage, or	B – High / II – Critical = B/II	New Risk	Xentrall ICT continue to invest time and resource in the continual review and where possible improvement of the Councils ICT security posture. This includes the participation in various internal and external audits such as the recently launched CAF (Cyber Assessment Framework). Additional monitoring services including Microsoft Secure Score and Microsoft Sentinel have recently been implemented which will alert ICT on various types of unauthorised and potentially malicious activity especially out of hours. In conjunction with Information Governance, Xentrall ICT run regular phishing exercises which help to raise awareness on the dangers of malicious emails. Xentrall ICT are also in the process of developing and implementing a Cyber Incident Response Plan, this was recently presented at Systems and Information Governance Group (SIGG) and will be launched and tested early in 2025. It should be noted that the impact to services will be dictated by the quality/preparedness of Service Areas individual Business Continuity Plans.

	catastrophic operational disruption / Ian Coxon			

<u>**Remainder of Strategic Risks**</u>

Risk No. & relevant Council Plan objective(s)	Risk / Responsible Person	Likelihood / Impact = Position on Matrix	Movement in Period	Reason for Movement on Matrix
SR1 **(CP1)**	Implementation of recommendations from the Capital Process Review is needed to improve effective capital project management / Ant Hewitt	E - Very Low / III – Marginal = E/III	No movement	
SR3	Business Continuity Plans not in place or tested for key critical services / Mark Ladyman	D - Low / II - Critical = D/II	No movement	
SR6	**Risk Removed** Risk of regulatory action and increased costs resulting from PCI-DSS Non-	Removed from D/II	Removed from D/II	Council achieved compliance for 2024/25 and work is ongoing to maintain compliance going forward.

	Compliance / Elizabeth Davison			
SR7	Financial implications of maintaining and conserving key corporate assets within the borough / Dave Winstanley	D - Low / II - Critical = D/II	No movement	
SR8 (CP1)	Investment in regeneration projects is not delivered / Ian Williams	D - Low / II - Critical = D/II	No movement	
SR10 (CP1)	Planning Performance at risk of Standards Authority intervention / Dave Coates	D - Low / II - Critical = D/II	No movement	
SR11	VAT partial exemption breech due to exempt VAT being close to the 5% limit / Brett Nielsen	D – Low / III – Marginal = D/III	Reduced	The risk of breech has reduced. There is limited major capital work formally identified beyond 2026/27 which puts the Council at risk of future breech, however our baseline VAT figures have exceeded our forecast in prior years which is beneficial to the seven year average so should help manage the risk of breeches and reduce the risk of repayment of VAT.
SR12	Fraud in General / Andrew Barber	D - Low / III – Marginal = D/III	No movement	

SR13 **(CP1)**	Instability within financial markets adversely impacts on finance costs and investments / Brett Nielsen	C – Signifiant / III – Marginal = C/III	No movement	
SR14 **(CP1)**	Financial pressures to the General Fund as a result of increased levels of unemployment and increased Council Tax Support claims / Anthony Sandys	D - Low / II - Critical = D/II	No movement	
SR17 **(CP4, CP5)**	Inability to recruit and retain sufficient qualified suitably experienced social workers in Children's Services impacts on cost and quality of service / Chris Bell	D - Low / II - Critical = D/II	No movement	
SR18 **(CP3)**	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	D - Low / II - Critical = D/II	No movement	

SR19 **(CP4)**	Failure to identify vulnerable schools and broker appropriate support to address needs / Tony Murphy	D - Low / II - Critical = D/II	No movement	
SR22 **(CP1, CP3)**	Market (Domiciliary Care Residential Care providers) failure following the Care Act/Living Wage/ Christine Sheilds	D - Low / II - Critical = D/II	No movement	
SR23 **(CP1, CP3, CP4)**	Market (Domiciliary Care Residential Care providers) for Vulnerable Families with Children (including SEND) experiences provider failure / Christine Shields	D - Low / II - Critical = D/II	No movement	
SR24 **(CP1, CP3)**	Market (Domiciliary Care Residential Care providers) failure as a result of increased transmissibility of new Covid variants and other viruses / Christine Shields	D - Low / II - Critical = D/II	No movement	

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 / Joss Harbron	D - Low / II - Critical = D/II	No movement	
SR26 **(CP3)**	Failure to respond appropriately to safeguard vulnerable adults, in line with national legislation and safeguarding adults procedures / Joss Harbron	D - Low / II - Critical = D/II	No movement	
SR31 **(CP4)**	Failure to maintain dedicated home to school transport services / Tony Murphy	D - Low / II - Critical = D/II	No movement	
SR33 **(CP1)**	Impact of national cost of living crisis on customers and audiences for Leisure and Cultural facilities / Ian Thompson	E – Very Low / II - Critical = E/II	No movement	

SR36 (CP1, CP6)	Failure to meet the Council's commitment to becoming Carbon neutral by 2040 / Mark Ladyman	D - Low / II - Critical = D/II	No movement	
SR37 (CP5)	Failure to operate an effective Channel Panel / Dave Winstanley	D - Low / II - Critical = D/II	No movement	
SR38 (CP4)	Reputational and regulatory risk if reinspection not successful / Tony Murphy	D - Low / II - Critical = D/II	No movement	
SR39 (CP1, CP2)	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	D - Low / II - Critical = D/II	No movement	
SR40 (CP1, CP6)	**Risk reworded** Failure to adequately plan for 2°C global temperature rise / Mark Ladyman/Ian Thompson	D - Low / II - Critical = D/II	No movement	

SR41 (CP1)	Staffing risk – failure to recruit to vacant posts / Brett Nielsen	C – Signifiant / III – Marginal = C/III	No movement	
SR42 (CP3)	Risk of enforcement action from the ICO in relation to subject access requests (SARs) / Luke Swinhoe	D - Low / II - Critical = D/II	No movement	
SR45 (CP2)	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	C – Signifiant / III – Marginal = C/III	No movement	
SR46 (CP3)	Adult social care waiting lists / Joss Harbron	D - Low / II - Critical = D/II	No movement	
SR47 (CP1, CP4, CP5, CP6)	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	E – Very Low / I – Catastrophic = E/I	No movement	

SR49 (CP4)	Failure to keep to the terms of the Safety Valve Agreement to manage deficit in High Needs Budget / Tony Murphy	D - Low / II - Critical = D/II	No movement	
SR51 (SR3, SR5)	**Risk re-worded** Additional funding for preventing harm from substance misuse may not continue beyond March 2026 / Lorraine Hughes	D – Low / II – Critical = D/II	Reduced	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. Funding for 25/26 has now been confirmed, at the same level in real cash terms. There will be a level of funding pressure, due to the impact of National Insurance Contributions. The position beyond 25/26 is not known and so it remains a risk, in terms of strategic planning and staff retention.
SR52 (CP3)	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	D - Low / III - Marginal = D/III	No movement	
SR53	Additional challenges introduced by the implementation of the Procurement Act 2023 / Luke Swinhoe	D - Low / II - Critical = D/II	No movement	

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AUDIT COMMITTEE
20 JANUARY 2025

PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT STRATEGY REPORT 2025/26

SUMMARY REPORT

Purpose of the Report

1. This report requests Audit Committee to review and scrutinise the following prior to forwarding to Cabinet and Council for their approval and adoption:

   (a) The Prudential Indicators and Limits for 2025/26 to 2027/28 relating to capital expenditure and Treasury Management activity.

   (b) A policy statement relating to the Minimum Revenue Provision.

   (c) The Treasury Management Strategy 2025/26, which includes the Annual Investment Strategy for 2025/26

2. The report outlines the Council's prudential indicators for 2025/26 – 2027/28 and sets out the expected treasury operations for this period. It fulfils key legislative and guidance requirements:

   (a) The reporting of the **prudential indicators** setting out the expected capital activities and treasury management prudential indicators included as treasury indicators in the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice

   (b) The Council's **Minimum Revenue Provision (MRP) Policy**, which sets out how the Council will pay for capital assets through revenue each year.

   (c) The **treasury management strategy** statement which sets out how the Council's treasury service will support capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators.

   (d) The key indicator is the **authorised limit**, the maximum amount of debt the Council could afford in the short term, but which is not sustainable in the longer term.

   (e) The **investment strategy** which sets out the Council's criteria for choosing the investment counterparties and limiting exposures to the risk of loss.

3. The information contained in the report regarding the Councils expenditure plans, Treasury Management and Prudential Borrowing activities indicate that they are:

   (a) Within the statutory framework and consistent with the relevant codes of practice.

(b) Prudent, affordable and sustainable.

(c) An integral part of the Council's Revenue and Capital Medium Term Financial Plans.

Recommendation

4. It is recommended that the Audit Committee examine the following and pass on any comments to Council via Cabinet in order that they approve them:

   (a) The Prudential Indicators and limits for 2025/26 to 2027/28 summarised in Tables 1 and 2.

   (b) The Minimum Revenue Provision (MRP) statement (paragraphs 39 – 48).

   (c) The Treasury Management Strategy 2025/26 to 2027/28 as summarised in paragraphs 52 to 82.

   (d) The Annual Investment Strategy 2025/26 contained in paragraphs 83 to 114.

Reasons

5. The recommendations are supported by the following reasons:

   (a) In order to comply with the Prudential Code for Capital Finance in Local Authorities and the Ministry for Housing, Communities and Local Government (MHCLG) guidance on investments and MRP Guidance.

   (b) To comply with the requirements of the Local Government Act 2003.

   (c) To approve a framework for officers to work within when making investment decisions.

Elizabeth Davison
Executive Director Resources and Governance

Background Papers
(i) Annual Draft Statement of Account 2023/24
(ii) Draft MTFP (incl Capital MTFP 2025/26 to 2028/29)
(iii) Draft Capital Strategy
(iv) MUFG Corporate Markets Treasury Limited Economic Report Dec 2024

Judith Murray: Ext 5204

Council Plan	The Council's Treasury Management Strategy contributes to all priorities outlined within the Council Plan.
Addressing inequalities	There is no impact as a result of this report.
Tackling Climate Change	There is no impact as a result of this report.
Efficient and effective use of resources	The Council's Treasury Management Strategy contributes towards the efficient and effective use of resources.
Health and Well Being	This report has no implications for the Council's Health and Well Being agenda
S17 Crime and Disorder	This report has no implications for S 17 Crime and Disorder.
Wards Affected	All Wards
Groups Affected	All Groups
Budget and Policy Framework	This report must be considered by Council.
Key Decision	This is not an executive decision
Urgent Decision	For the purposes of call in this report is not an urgent decision.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers.

MAIN REPORT

Information and Analysis

Background

6. CIPFA defines treasury management as:

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

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

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

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

10. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

Reporting requirements

Capital Strategy

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

    (a) A high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services

    (b) An overview of how the associated risk is managed

    (c) The implications for future financial sustainability.

12. The aim of the capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The Capital Strategy is reported separately to Council on an annual basis.

Treasury Management Reporting

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

Prudential and Treasury Indicators and Treasury Strategy (this report)

14. The first, and most important report is forward looking and covers:

    (a) The capital plans (including prudential indicators);

    (b) A minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);

    (c) The treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and

(d) An investment strategy, (the parameters on how investments are to be managed).

A Mid-Year Treasury Management Report

15. This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether the treasury function is meeting the strategy or whether any policies require revision.

An Annual Treasury Report

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

17. These reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

Quarterly reports

18. In addition to the three major reports detailed above quarterly reporting is also required (end of June/end of December). These additional reports do not need to be reported to the Council but do require to be adequately scrutinised. This role is undertaken by the Audit Committee.

Environmental, social and governance (ESG)

19. The Council consider their credit and counterparty policies in the light of ESG information. All the main rating agencies are now extoling how they incorporate ESG risks alonsgside more traditional financial risk metrics when assessing counterprty ratings. Our Treasury Management advisors update us on any changes to counterparty ratings and look at ESG factors into their creditworthiness asessment service.

Treasury Management Strategy for 2025/26

20. The strategy for 2025/26 covers two main areas:

(a) Capital Issues:

(i) The capital expenditure plans and the prudential indicators;
(ii) The minimum revenue provision (MRP) policy.

(b) Treasury Management Issues:

(i) The current treasury position;

(ii) Treasury indicators which will limit the treasury risk and activities of the Council;

(iii) Prospects for interest rates;

(iv) The borrowing strategy;

(v) Policy on borrowing in advance of need;

(vi) Debt rescheduling;

(vii) The investment strategy;

(viii) Creditworthiness policy; and

(ix) Policy on use of external service providers.

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

22. A summary of the key prudential indicators and limits are contained in Tables 1 and 2 and further details are contained further on in this report.

Table 1 – Capital Expenditure and Borrowing

	2024/25 Revised	2025/26 Estimated	2026/27 Estimated	2027/28 Estimated
Capital Expenditure Tables 3 and 4	74.738	82.954	45.719	24.352
Capital financing requirement - Table 5	248.267	266.783	279.135	285.634
Ratio of financing costs to net revenue stream – General Fund See paragraph 50 - Table 6	4.10%	4.15%	3.76%	3.55%
Ratio of financing costs to net revenue stream –HRA See paragraph 50 - Table 6	12.49%	13.34%	12.02%	11.53%
Operational boundary for external debt - Table 9	190.401	213.463	230.330	241.085
Authorised limit for external debt - Table 10	260.681	280.122	293.092	299.916

Table 2 – Treasury Management

	2025/26 Upper Limit	2026/27 Upper Limit	2027/28 Upper Limit
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	40%	40%	40%
Maximum principal sums invested > 364 days	£50m	£50m	£50m
Maturity Structure of fixed interest rate borrowing 2025/26			
		Lower Limit	**Upper Limit**
Under 12 months		0%	50%
12 months to 2 years		0%	60%
2 years to 5 years		0%	70%
5 years to 10 years		0%	80%
10 years and above		0%	100%

Training

23. The CIPFA code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Training was undertaken by a number of Members during a session held in January 2024. Further training sessions will be arranged as required. The training needs of treasury management officers are periodically reviewed.

Treasury Management Consultants

24. The Council uses MUFG Corporate Markets Treasury Limited as its external treasury management advisors. The Council recognises that responsibility for treasury decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service provider. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

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

The Capital Prudential Indicators 2025/26– 2027/28

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

Capital Expenditure

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

Table 3 Capital Expenditure

	2024/25 Revised £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
General Fund	32.905	30.216	11.588	4.545
HRA	34.506	39.878	28.737	14.507
Estimated Capital Expenditure	**67.411**	**70.094**	**40.325**	**19.052**
Loans to Joint Ventures	7.327	12.860	5.394	5.300
Total	**74.738**	**82.954**	**45.719**	**24.352**

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

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

Table 4 Financing of the Capital Programme

	2024/25 Revised £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
General Fund	32.905	30.216	11.588	4.545
HRA	34.506	39.878	28.737	14.507
Loans to Joint Ventures	7.327	12.860	5.394	5.300
Total Capital	**74.738**	**82.954**	**45.719**	**24.352**
Financed by:				
Capital receipts -General Fund	4.450	2.732	0.00	0.00
Capital receipts - Housing	0.000	0.00	0.300	0.300
Capital grants	27.033	25.118	10.857	4.295
JV Repayments	3.415	4.120	2.767	8.734
Self-financing - GF	0.000	0.171	2.731	0.250
Revenue Contributions (Housing)	34.482	26.774	26.437	14.207
Total excluding borrowing	**69.380**	**58.915**	**43.092**	**27.786**
Net financing need for the year	**5.358**	**24.039**	**2.627**	**-3.434**

The Council's Borrowing Need (the Capital Financing Requirement)

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

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

32. The CFR includes any other long-term liabilities (e.g. PFI schemes & finance leases) brought onto the balance sheet. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI or lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £6.912m of such schemes within the CFR.

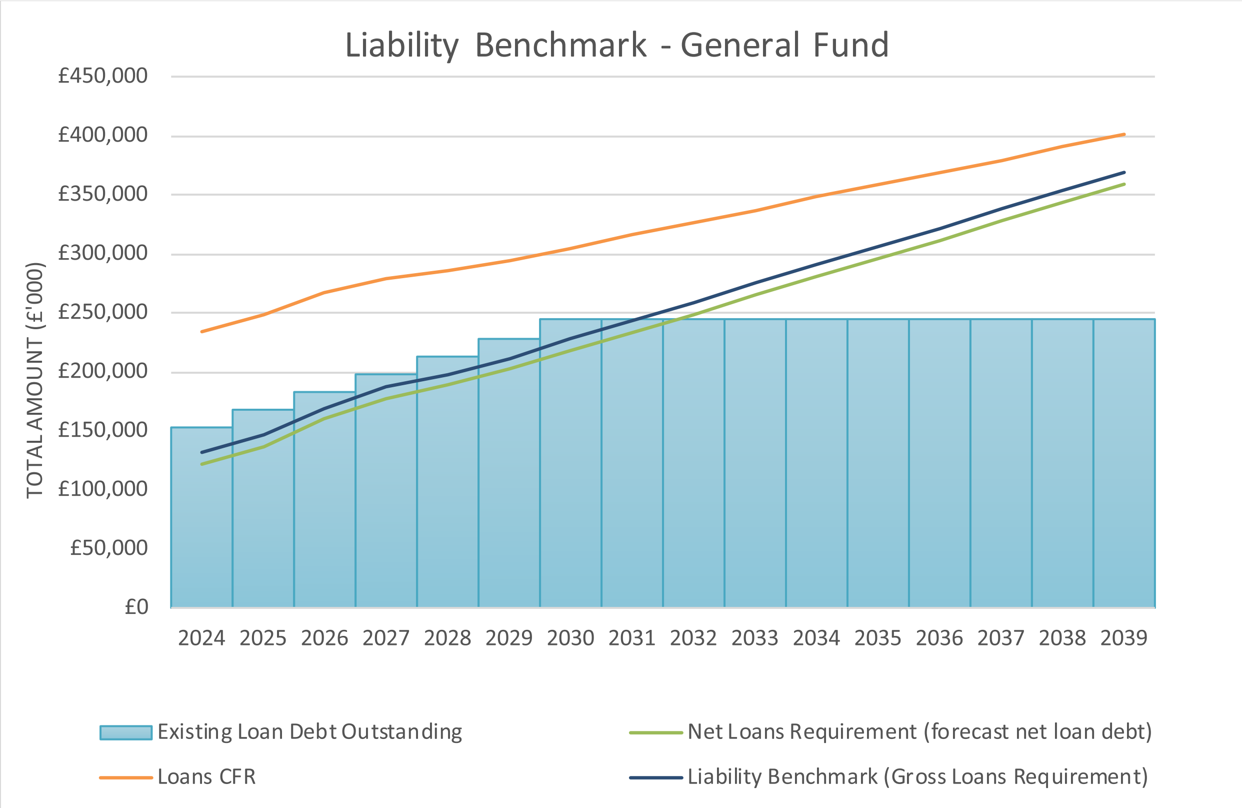
33. The Committee is asked to approve the CFR projections below:

Table 5 – CFR Projections

	2024/25 Revised £m	**2025/26 Estimate £m**	**2026/27 Estimate £m**	**2027/28 Estimate £m**
CFR – General Fund	151.373	152.420	153.665	155.335
CFR – PFI and Finance leases	6.912	6.317	5.725	5.133
CFR – housing	76.371	85.778	95.018	104.092
CFR - Loans to JV's	13.611	22.268	24.727	21.074
Total CFR	**248.267**	**266.783**	**279.135**	**285.634**
Movement in CFR		**18.515**	**12.351**	**6.499**

Liability Benchmark

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



35. There are four main components to the Liability Benchmark:-

(a) **Existing borrowing (loan debt outstanding)**: the Council's existing loans that are still outstanding in future years.

(b) **Loans CFR:** calculated in accordance with the loans CFR definition and projected into the future based upon estimated prudential borrowing and associated MRP

(c) **Net loans requirement (Forecast Net Loans Debt)**: this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

(d) **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short -term liquidity allowance.

36. The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.

37. CIPFA recommends that the optimum position for external borrowing should be at the level of the Liability Benchmark (i.e. all balance sheet resources should be used to maximise internal borrowing). If the outputs show future periods where external loans are less than the Liability Benchmark, then this indicates a borrowing requirement thus identifying where the authority is exposed to interest rate, liquidity and refinancing risks. Conversely where external loans exceed the Liability Benchmark then this will highlight an overborrowed position which will result in excess cash in the organisation requiring investment thus exposing the authority to credit and reinvestment risks and a potential cost of carry.

38. The Liability Benchmark position is not to be confused with the under/over borrowing position as shown by the prudential indicator in Table 8 below. This compares the actual gross debt to the capital financing position and is demonstrated in the Liability Benchmark above by comparing Loans CFR to Existing Loan Debt outstanding.

MRP Policy Statement

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

40. MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. The MRP Guidance 2024 provides 4 options for calculating MRP. An authority can use a mix of these options if it considers it appropriate to do so.

41. The adoption of IFRS 16 Right of Use Assets has led to some assets previously leased and therefore off balance sheet, being brought on to balance sheet. MRP will also need to be provided for those assets as they will increase the CFR.

42. The Regulations state that local authorities must make MRP with respect to any debt used to finance a commercial capital loan. A capital loan is defined as a loan undertaken primarily for financial return or where the loan itself is capital expenditure undertaken primarily for financial return. The Authority's loans to joint ventures are categorised as commercial loans. It should be noted however that the loan repayments can also be used to reduce the CFR and hence the MRP charge, however, until the loan has been fully repaid MRP must be charged.

43. It is proposed that Darlington Borough Council's MRP policy statement for 2025/26 will be:

    (a) For Capital expenditure incurred before 1 April 2008 and expenditure which was granted through credit approvals since that date MRP will be calculated on an annuity basis (2%) over 50 years or the useful life of the asset.

    (b) Capital Expenditure from 1 April 2008 for all unsupported borrowing MRP will be based on the estimated life of the assets, repayments will be on an annuity basis.

(c) Repayments relating to the PFI scheme will be based on the life of the asset of 60 years from 1 April 2008 on an annuity basis (2%).

(d) For IFRS 16 Right of Use Assets the MRP will be measured as being equal to the element of the rent/charge for the asset.

(e) For commercial loans MRP will be based on the estimated life of the assets and repayments will be on an annuity basis until the loans have been repaid in full.

44. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

45. Repayments included in annual PFI or finance leases are applied as MRP.

46. For capital expenditure on loans to third parties where the principal element of the loan is being repaid in instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP. Where no principal repayment is made in a given year MRP will be charged in accordance with the Council's MRP policy.

47. **MRP Overpayments** - A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

48. Cumulative VRP overpayments made to date are £0.500m.

Affordability Prudential Indicators

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

Estimates of the ratio of financing costs to net revenue stream

50. This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

Table 6 - Ratio of financing costs to net revenue stream

	2024/25 Revised	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
General Fund	4.10%	4.15%	3.76%	3.55%
HRA	12.49%	13.34%	12.02%	11.53%

51. The estimates of financing costs include current commitments and the proposals in this year's MTFP report.

Treasury Management Strategy

Borrowing

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

Under Borrowing position

53. Over the last ten years the Council had maintained an underborrowed position i.e. the amount of our gross external borrowing has been less than our balance sheet Capital Financing Requirement. This strategy has served the Council well in a period where returns on investment have been low and borrowing costs have been relatively high. This has also meant that we have had less in the form of investments and so reduced counterparty risk. To support the MTFP it was agreed that longer term investments would be pursued as these would give a return over and above the cost of any additional borrowing that would be taken. Following due diligence the Council has 3 Property Funds with a total investment as at 31st December 2024 of £25.4m. These are expected to bring a gross return of between 2.50% and 3.50% over the life of the MTFP. In 2023/24 the funds returned £1.08m in dividends.

54. Initially £30m was invested in property funds as a long term commitment. Captal valuations however do fluctuate over time and due to prevailing economic conditions over the past few years the capital value of our invetments has decreased. During 2024/25 we have seen capital values start to recover as interest rates and inflation start to fall. This recovery is forecast to continue, however it will strongly depend upon what happens in the economic climate in the coming year.

55. During 2024/25 the Council were informed by one of our funds (Hermes Federated) that due to a signficant redemption request the fund was potentially looking at either merging with another larger property fund, or being wound up during the course of 2025/26.

56. At present no decision has been made with regards to the future of the Hermes fund but Officers will continue to be invlovled in any discussions regarding this and will review the situation once a decision has been made with regards the future of the fund. It should be noted that at present this has not impacted on the capital value of the fund or the dividend distributions.

57. In line with previously agreed delegations the Treasury Management Strategy gives flexibility for Officers to manage the day to day operations of our investments including

the property funds to maximise returns for the Council. Officers will continue to use this delegation to manage our options and report back to Members through the usual reporting processes.

Current Portfolio Position

58. The overall treasury management portfolio as at 31 March 2024 and for the position as at 31 December 2024 are shown below for both borrowings and investments.

Table 7 – Treasury Portfolio

TREASURY PORTFOLIO				
	Actual 31/03/2024 £m's	Actual 31/03/2024 %	Current 31/12/2024 £m's	Current 31/12/2023 %
Treasury Investments				
Banks	0.000	0.0	0.000	0.0
local authorities	0.000	0.0	5.000	12.1
money market funds	6.370	20.5	10.950	26.5
Total managed in house	**6.370**	**20.5**	**15.950**	**38.6**
Property funds	24.767	79.5	25.407	61.4
Total managed externally	**24.767**	**79.5**	**25.407**	**61.4**
Total treasury investments	**31.137**	**100.0**	**41.357**	**100.0**
Treasury external borrowing				
local authorities	32.000	20.9	47.000	28.0
PWLB	108.278	70.8	108.208	64.5
LOBO's	12.600	8.3	12.600	7.5
Total external borrowing	**152.878**	**100.0**	**167.808**	**100.0**
Net treasury borrowing	**121.741**		**126.451**	

59. The Council's expected treasury portfolio position at 31 March 2025, with forward projections is summarised below at Table 8. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 8 - Gross Borrowing to CFR

	2024/25 Revised £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Debt at 31 March	167.878	182.878	197.878	212.878
Loans to Joint Ventures	13.611	22.268	24.727	21.074
Other long-term liabilities (OLTL)	6.912	6.317	5.725	5.133
Gross Actual debt at 31 March	**188.401**	**211.463**	**228.330**	**239.085**
The Capital Financing Requirement from Table 5	**248.268**	**266.783**	**279.135**	**285.634**
Under / (over) borrowing	**59.867**	**55.320**	**50.805**	**46.549**

60. Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that the borrowing is not undertaken for revenue or speculative purposes.

61. The Executive Director of Resources and Governance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This takes into account current commitments, existing plans, and proposals within this budget report.

Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

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

Table 9 - Operational Boundary

	2024/25 Revised £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Debt from Table 8 (incl JV's)	181.489	205.146	222.605	233.952
Other long-term liabilities	6.912	6.317	5.725	5.133
Prudential Borrowing for leasable assets	1.000	1.000	1.000	1.000
Prudential Borrowing under Directors Delegated Powers	1.000	1.000	1.000	1.000
Operational Boundary	**190.401**	**213.463**	**230.330**	**241.085**

The Authorised Limit for external debt

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

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

65. The Council is asked to approve the following Authorised Limit:

Table 10 – Authorised Limit

	2024/25 Revised £m	**2025/26 Estimate £m**	**2026/27 Estimate £m**	**2027/28 Estimate £m**
CFR	248.268	266.783	279.135	285.634
Additional Headroom @ 5%	12.413	13.339	13.957	14.282
Authorised Limit	**260.681**	**280.122**	**293.092**	**299.916**

66. It is proposed that the additional headroom for years 2025/26 to 2027/28 is 5% above the CFR, this would allow for any additional cashflow needs throughout the years.

Prospects for Interest Rates

67. The Council has appointed MUFG Corporate Markets Treasury Limited as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link Asset Services's central view for future interest rates and the economic background to that view is shown at **Appendix 1.**

Table 11 – Interest rates

	Bank Rate %	PWLB Borrowing Rates % (including *certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Dec 2024	4.75	5.00	5.30	5.60	5.40
Mar 2025	4.50	4.90	5.10	5.50	5.30
Jun 2025	4.25	4.80	5.00	5.40	5.20
Sep 2025	4.00	4.60	4.80	5.30	5.10
Dec 2025	4.00	4.50	4.80	5.20	5.00
Mar 2026	3.75	4.50	4.70	5.10	4.90
Jun 2026	3.75	4.40	4.50	5.00	4.80
Sep 2026	3.75	4.30	4.50	4.90	4.70
Dec 2026	3.50	4.20	4.40	4.80	4.60
Mar 2027	3.50	4.10	4.30	4.70	4.50
Jun 2027	3.50	4.00	4.20	4.60	4.40
Sep 2027	3.50	4.00	4.20	4.50	4.30
Dec 2027	3.50	3.90	4.10	4.50	4.30

** The certainty rate adjustment is a reduced rate by 0.20% for those councils like Darlington Borough Council who have submitted more detail on future borrowing requirement to the Treasury. A further reduction on 0.40% is also available for those councils which like Darlington have a Housing Revenue Account.*

Investment and borrowing rates

68. Investment returns are likely to decrease towards the latter part of 2025/26 if both CPI inflation and wage/employment data support a fall in the bank rate. Caution must be exercised in respect of all interest rate forecasts as there are so many variables involved at this time.

69. Borrowing interest rates are also forecast to fall by the end of 2025/26 although these still remain higher than what has been the case in previous years. Naturally timing on this matter will remain one of fine judgement, cut too soon and inflationary pressures may build up further, cut too late and any downturn or recession may be prolonged.

70. While the Council will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry (the difference between higher borrowing costs and lower investment returns), so any new short or medium-term borrowing will incur a revenue cost.

Borrowing Strategy

71. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is Bank Rate remains relatively elevated in 2025 even if some rate cuts arise

72. Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Executive Director Resources and Governance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

    (b) If it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projectred to be in the next few years.

73. Any decisions would be reported to the appropriate Committee at the next available opportunity.

Treasury Management Limits on Activity

74. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs/improve performance. The indicators are:

    (a) Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments

    (b) Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

    (c) Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits. The Council is asked to approve the following treasury indicators and limits:

Table 12 Interest Rate Exposure

	2025/26	2026/27	2027/28
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%
Maturity Structure of fixed interest rate borrowing 2025/26			
		Lower	**Upper**
Under 12 months		0%	50%
12 months to 2 years		0%	60%
2 years to 5 years		0%	70%
5 years to 10 years		0%	80%
10 years and above		0%	100%

Policy on Borrowing in Advance of Need

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

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

Debt Rescheduling

77. Rescheduling of current borrowing in our debt portfolio may be considered if there is spare cash available to facilitate any repayment or rebalancing of the portfolio to provide more certainty is considered appropriate.

78. If there was a possibility the reasons for any rescheduling to take place will include:

    (a) The generation of cash savings and / or discounted cash flow savings;

    (b) Helping to fulfil the treasury strategy;

    (c) Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

79. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

80. If rescheduling was done it will be reported to Committee at the earliest meeting following its action.

New Financial Institutions as a source of borrowing

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

    (a) Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate)

    (b) Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a 'cost of carry' or to achieve refinancing certainty over the next few years)

    (c) Municipal Bond Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

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

Annual Investment Strategy

Investment and Creditworthiness Policy

83. The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

84. The Council's investment policy has regard to the following:

    (a) MHCLG's Guidance on Local Government Investments ("the Guidance")

    (b) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")

    (c) CIPFA Treasury Management Guidance Notes 2021

85. The Council's investment priorities will be security first, liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite.

86. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

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

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

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

(c) Other information sources used will include the financial press, share prices and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

(d) This Council has defined the list of types of investment instruments that the treasury management team are authorised to use. There are 2 lists in **Appendix 2** under the categories of ‘specified’ and ‘non-specified’ investments.

(i) Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.

(ii) Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.

(e) Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in Table 13.

(f) Transaction limits are set for each type of investment in Table 13.

(g) This Council wil set a limit for the amount of its investments which are invested for longer than 365 days.

(h) Investments will be placed with counterparties from countries with a specified minimum sovereign rating.

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

(j) All investments will be denominated in sterling.

(k) As a result of the change in accounting standards for 2023/24 under International Financial Reporting Standard (IFRS) 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018 the Ministry of Housing, Communities and Local Government [MHCLG], conlcuded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for 5 years ending 31 March 2023). This was extended by Government to 31 March 2025. At present Government are not minded to extend the statutory override further.

88. However, this Council will also pursue value for money in treasury mangement and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year

89. The above criteria are unchanged from last year.

Investment Counterparty Selection Criteria

Creditworthiness policy

90. This Council applies the creditworthiness service provided by MUFG Corporate Markets Treasury Limited. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

(a) 'Watches' and 'Outlooks' from credit rating agencies;

(b) CDS spreads that may give early warning of changes in credit ratings;

(c) Sovereign ratings to select counterparties from only the most creditworthy countries.

91. This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands:

(a)	Yellow	5 years
(b)	Purple	2 years
(c)	Orange	1 year

(d) Red 6 months
(e) Green 100 days
(f) No colour not to be used

92. The MUFG Corporate Markets Treasury Limited creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

93. Typically, the minimum credit ratings criteria the Council uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

94. All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

(a) If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

(b) In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

95. Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

96. Any investment in Property Funds/ Corporate Bond Funds/ Asset Backed Investment Products will be subject to due diligence for each and every fund considered. The maximum amount invested in any one fund will be £20million with a maximum of £50million total for all funds.

Table 13 – Time and monetary limits applying to investments

	Colour (and long-term rating where applicable)	Transaction Limit	Time Limit
Banks	Yellow	£5m	5 years
Banks	Purple	£4m	2 years
Banks	Orange	£3m	1 year
Banks	Red	£4m	6 months
Banks	Green	£4m	100 days
Banks	No Colour	Not to be used	
Banks 3 category – Council's banker (where 'No Colour')		£4m	1 day
DMADF (Debt Management Office)	Uk sovereign rating	unlimited	6 months
Other institutions limit			1 year
Local authorities	n/a	£5m per Local Authority	2 years
Money market Funds (CNAV, LVNAV & VNAV) and Ultra Short Dated Bond Funds	AAA	£5m per Fund	Liquid
Property Funds, Corporate Bond Funds and other Asset backed Investment products	AAA	£20m per Fund	

97. Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

98. The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix 3**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

99. The proposed criteria for Specified and Non-Specified investments are shown in Appendix 2 for approval.

Investment Strategy

In-house funds

100. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate being cut quicker than expected if the economy stagnates, so an agile investment strategy would be appropriate to optimise returns.

101. Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash flows can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment returns expectations

102. The current forecast shown in paragraph 67, includes a forecast for Bank Rate to be cut to 4.00% in quarter 2 2025.

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

(a)	2024/25 (remainder)	4.60%
(b)	2025/26	4.10%
(c)	2026/27	3.70%
(d)	2027/28	3.50%
(e)	2028/29	3.50%
(f)	Years 6 to 10	3.50%
(g)	Years 10+	3.50%

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

Investment treasury indicator and limit

105. Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

106. The Committee is asked to approve the treasury indicator and limit: -

Table 14 – Maximum Principal sums invested

	2024/25	2025/26	2026/27
Principal sums invested greater than 365 days	£50m	£50m	£50m

107. For its cash flow generated balances, the Council will seek to utilise its instant access accounts, 30+ day notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

Investment Risk Benchmarking

108. These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. They relate to Investments that are not Property Funds. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

109. Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

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

110. Liquidity – in respect of this area the Council seeks to maintain:

(a) Bank overdraft - £0.100m

(b) Liquid short-term deposits of at least £3.000m available with a week's notice

(c) Weighted Average Life benchmark is expected to be 1 year.

111. Yield - local measures of yield benchmarks are:

(a) Investments – internal returns above the 7-day Sterling Overnight Index Average (SONIA) compounded rate

(b) Investments – Longer term – capital investment rates returned against comparative average rates

112. In addition that the security benchmark for each individual year is:

Table 15 - Security Benchmark

	1 year	2 years
Maximum	0.077%	0.077%

Note: This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment.

113. The above reported benchmarks for Security Liquidity and Yield all relate to Deposits with Banks and Money Market Funds but would not relate to Property Funds.

114. It is proposed that property funds will be benchmarked for performance against the IPD All Balanced Fund index which is the universe of all property funds, data for this can be provided by our Treasury Management advisors Link Group.

End of year investment report

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

Outcome of Consultation

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

APPENDIX 1

Economic Background provided by MUFG Corporate Markets Treasury Limited

1. The third quarter of 2024 (July to September) saw:
2. GDP growth stagnating in July following downwardly revised Q2 figures (0.5% quarter on quarter (q/q))
3. A further easing in wage growth as the headline 3 month year on year (y/y) rate (including bonuses) fell from 4.6% in June to 4.0% in July;
4. CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
5. Core CPI inflation increasing from 3.3% in July to 3.6% in August;
6. The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
7. 10-year gilt yields falling to 4.0% in September.
8. The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.
9. The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% month on month (m/m) increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.
10. The Government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Our colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.
11. The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.
12. Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

13. CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.

14. The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.

15. Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.

16. Our forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report.

17. Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.

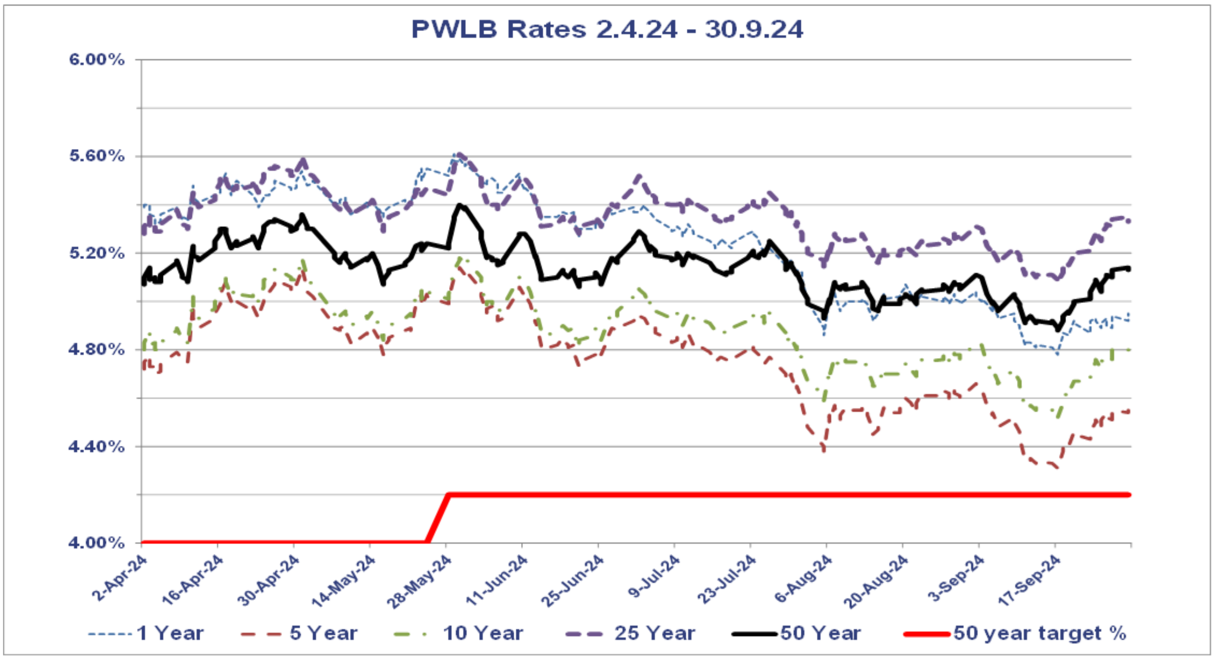
18. The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to see who is elected the next US President, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.

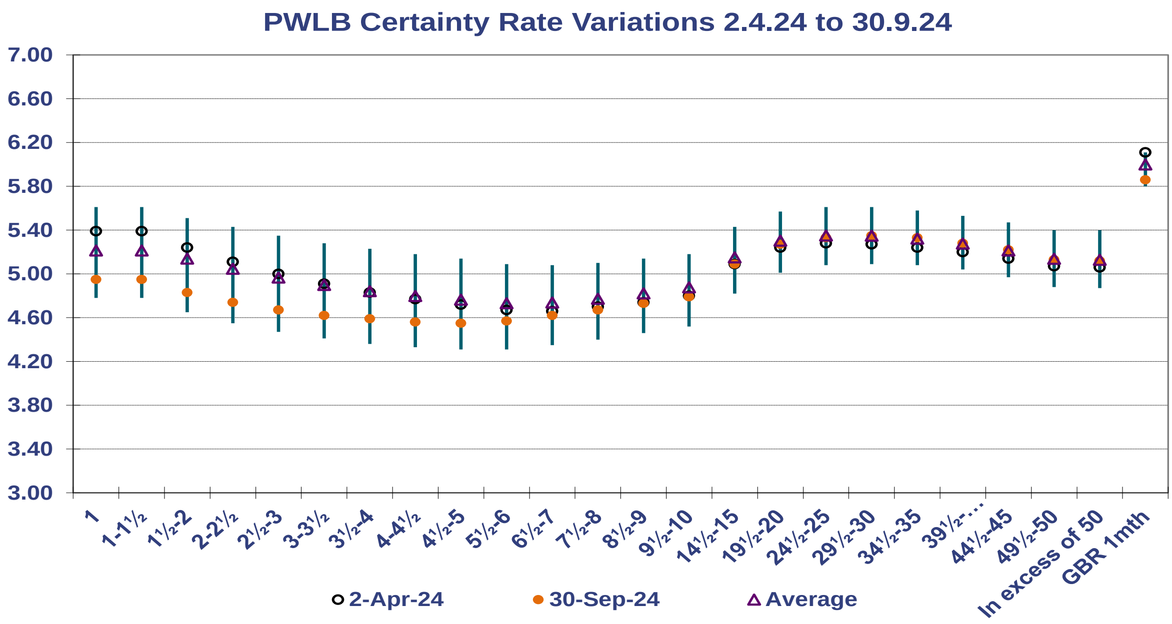
MPC meetings: 9 May, 20 June, 1 August, 19 September 2024

19. On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.

20. However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
21. Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
22. Nonetheless, November still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.
23. In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.

PWLB RATES 02.04.24 - 30.09.24





HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

APPENDIX 2

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

Specified Investments

1. All such investments will be sterling denominated, with maturities up to a maximum of 1year, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months).

Non-Specified Investments

2. These are any investments which do not meet the specified investment criteria.

3. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

4. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	Max % of total investment / £ limit per institution	Max. maturity period
Debt Management Account Deposit Facility (DMADF) – UK Government	Yellow	100%	6 months (max is set by DMO)
UK Gilts	Yellow		5 years
UK Treasury Bills	Yellow		364 days (max is set by DMO)
Bonds issued by multilateral development banks	Yellow		5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNVAV	AAA		Liquid
Money Market Funds VNAV	AAA		Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local Authorities	Yellow	100%	5 years
Term Deposits with Housing Associations	Orange Red Green No Colour		12 months 6 months 100 days Not for use
Term Deposits with Banks and Building Societies	Orange Red Green No Colour		12 months 6 months 100 days Not for use
CD's or Corporate Bonds with Banks and Building Societies	Orange Red Green No Colour		12 months 6 months 100 days Not for use
Gilt Funds	UK Sovereign rating		

* DMO – is the Debt Management Office of HM Treasury

APPENDIX 3

APPROVED COUNTRIES FOR INVESTMENTS

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

Based on lowest available rating

AAA:

(a) Australia
(b) Denmark
(c) Germany
(d) Netherlands
(e) Norway
(f) Singapore
(g) Sweden
(h) Switzerland

AA+:

(a) Canada
(b) Finland
(c) U.S.A.

AA:

(a) Abu Dhabi (UAE)

AA-:

(a) Belgium
(b) France
(c) Qatar
(d) U.K.