



Audit Committee Agenda

2.00 pm

Monday, 19 January 2026

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. To approve the Minutes of this Audit Committee on 13 October 2025 (Pages 3 - 8)
4. Verbal Update from Forvis Mazars
5. Mid Year Risk Management Report 2025/26 – Report of the Chief Executive (Pages 9 - 34)
6. Audit Services - Activity Report – Report of the Assurance Manager (Pages 35 - 44)
7. Final Accounts Timetable For the Year Ended 31 March 2026 – Report of the Executive Director of Resources and Governance (Pages 45 - 50)
8. Prudential Indicators and Treasury Management Strategy Report 2026/27 – Report of the Executive Director of Resources and Governance (Pages 51 - 86)
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



Amy Wennington
Assistant Director Law and Governance

Friday, 9 January 2026

Town Hall
Darlington.

Membership

Councillors Henderson, Keir, McGill, Crudass, Layton and Beckett

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, Resources and Governance, 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 or telephone 01325 405363

AUDIT COMMITTEE
Monday, 13 October 2025

PRESENT – Councillors Henderson (Chair), McGill, Crudass, Layton and Beckett

APOLOGIES – Councillors Keir

OFFICERS IN ATTENDANCE – Lee Downey (Complaints and Information Governance Manager), Andrew Barber (Audit and Risk Manager, Stockton Borough Council), Brett Nielsen (Assistant Director Resources), Judith Murray (Finance Manager) Andy Evan (Head of ICT), Gavin Barker (Forvis Mazars), Campbell Dearden (Forvis Mazars) and Olivia Hugill (Democratic Officer)

A61 DECLARATIONS OF INTEREST

There were no declarations of interest reported at the meeting.

A62 TO APPROVE THE MINUTES OF THIS AUDIT COMMITTEE HELD ON 21 JULY 2025

Submitted – The Minutes (previously circulated) of the Audit Committee held on 21 July 2025.

RESOLVED – That the Minutes of the Audit Committee held on 21 July 2025 be approved as a correct record.

A63 AUDIT STRATEGY MEMORANDUM 2024/25

The Audit Director from Forvis Mazars presented the Audit Strategy Memorandum (previously circulated) for Darlington Borough Council for the year ending 31 March 2025.

The report summarised the Audit approach, this included the significant risks and areas of key judgement they had identified and provided details of their audit team. It was explained that the report had been prepared following form initial planning discussions with management.

The report contained appendices that outlined Forvis Mazars key communications, forthcoming accounting issues and any other issues that may be of interest to Members.

The report set out the Engagement and responsibilities, the Audit Team, Audit scope, approach and timeline, the materiality and misstatements, the significant risks and other key judgement areas, value for money and Audit fees and other services and the confirmation of their independence.

Members sought Forvis Mazars perspective on the likelihood of a qualified opinion to be undertaken. Members questioned Darlington Borough Council Officers around whether they will be able to support Forvis Mazars requirements within the timeframe.

Members raised their concerns on how Forvis Mazars have not yet set their guidance and whether they can confirm the timeline for this. Members asked whether Forvis Mazars could

give further information around the team's experience and their employment turnover. Members asked if the Committee would have oversight of the Joint Venture accounts.

RESOLVED - That the update be noted.

A64 AUDIT SERVICES - 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.

Discussion ensued around whether the change in the system will allow the date to continue in the same format. Members asked if the increase in unscheduled visits in adults services was due to CQC inspections.

RESOLVED – That the activity and results be noted.

A65 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 2025/26.

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 2024/25 Strategy.

Members discussed whether the emerging risk areas would be national or only relevant to Darlington.

RESOLVED - That the 2025/26 Anti-Fraud and Corruption Strategy be noted.

A66 MID-YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT 2025/26

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 indicators 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 2025 of the 2025/26 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 £182.456 million and the Authorised Limit to £276.297 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.

A67 PROPERTY FUNDS

The Assistant Director of Resources submitted a report (previously circulated) to provide Members with information concerning the Council's property fund investments.

The report explained that the 2017/18 Treasury Management Strategy approved by Council on the 28th February 2017 included the provision to invest in units in property funds up to £20m per fund with a total maximum of £40m.

It was clarified that after due diligence and review Lothbury, CCLA and Hermes were selected and investments of £10m were made into each fund. Following the termination of the Lothbury Property Fund the Council had reinvested the proceeds to date into another property fund, USB Triton Property Fund.

The report outlined that in addition to greater revenue returns there is potential for capital gains (increases in the fund price) but as capital prices fluctuate with wider economic activity, investments of this nature need to be a long-term commitment usually 10-25 years.

To conclude the report it was explained that to date the property funds have provided over £8m in income (dividends) which have provided the Council with additional resources to invest in services through the Medium Term Financial Plan (MTFP).

The Chair thanked officers for completing this report, Members raised some technical questions around the report. The Committee wanted to understand what type of investments the Council look to consider.

RESOLVED – That the report be noted.

A68 INFORMATION GOVERNANCE WORK PROGRAMME - PROGRESS REPORT

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 Digital Darlington Strategy and Artificial Intelligence. The strategy is based around 4 themes, with the web and systems updates throughout this report demonstrating progress against some of these themes.

Members asked if any work had been completed to find out how much officer time has now saved from the introduction of these new systems.

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

A69 ICT STRATEGY - IMPLEMENTATION PROGRESS REPORT

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.

A70 ETHICAL GOVERNANCE AND MEMBER STANDARDS - UPDATE REPORT

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 2025 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.

Members discussed the proposal to remove Members personal numbers and addresses from the public domain.

RESOLVED – That the report be noted.

This page is intentionally left blank

AUDIT COMMITTEE
19 January 2026

MID YEAR RISK MANAGEMENT REPORT 2025/26

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. 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.

Rose Rouse
Chief Executive

Background Papers

- (i) Council's Risk Management Strategy
- (ii) Corporate and Group Risk Registers
- (iii) Annual Risk Management Report to Audit Committee July 2025

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 the previous review of the Council's Risk Management Strategy, the risks plotted on the matrices are now categorised as Strategic Risks and linked to the relevant objective in the Council Plan, where appropriate. This is to ensure there is a greater focus on managing the risks to the Council delivering the objectives set out in the Council Plan and to ensure effective management of inter-departmental risks. The 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 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 continue to be key priorities for the Council, with work continuing to embed the health and safety management system and maintain a positive culture. The total number of reports to the Health and Safety Executive (HSE), as required by the Reporting of Injuries Diseases and Dangerous Occurrences Regulations (RIDDOR) as at 2025/26 Q3 was 13. The 13 reportable accidents were eight slips, trips or falls, two manual handling, two struck by and one fall from height.
12. RIDDOR requires employers to report certain diagnosed reportable diseases. The Council reported two cases at Q3 2025/26 of hand arm vibration syndrome to employees working with vibratory equipment.
13. One accident to a member of the public was reported under RIDDOR. This was in a maintained primary school, where a child fell from a designated climbing tree, resulting in a fractured leg.
14. All accidents and ill health reports are investigated by management and the Health and Safety Team to establish the causes, to identify issues or trends and make recommendations to prevent reoccurrence.
15. The most common kind of minor accident was once again slips, trips or falls on the same level, followed by manual handling and struck by accidents. Targeted work with services continues with a focus on risk assessment development and reviews, training including refresher and monitoring of the work areas and work practices.
16. Good near miss reporting levels are an indication of a positive health and safety culture. Near miss reporting continues to be encouraged, promoting the benefits for accident and ill health prevention and as at Q3, 75 reports had been submitted.
17. Violence at work remains a risk to Council staff. Services reporting incidents include, social care and housing, and there was also an increase in reports in other areas including school crossing patrol, leisure, and culture.
18. Work has continued to implement measures to reduce the risk of violence including the use of security; maintaining the employee protection register, promoting and monitoring the use of personal safety devices, with corporate wide use of the devices consistently good. A refreshed internal violence at work training course has been launched covering legislation, Council arrangements, why violence happens and how it can be recognised and de-escalated. Work has also continued to raise awareness of the importance of reporting incidents to help reduce the risk and protect staff.
19. A programme of health and safety audits and inspections have continued in 2025. In addition to health and safety management system audits, there has been a focus on legislation compliance audits including construction (design and management) and asbestos management.
20. A new Highway Asset Management system (Aurora) is currently being implemented and is expected to go live in February 2026. The new system will allow improved mobile recording of inspections using ios devices. Aurora will be used across the Highways, Street Lighting, Public Rights of Way, Structures and Gully Cleansing service areas and features a comprehensive asset register and works management system. Aurora has already been in

use for over 2 years for the Street Works service. It replaces Insight which has been in use for over 25 years and is provided by the same supplier.

21. The “Report It” website for highway and street lighting defects has now received over 12,000 reports since it was introduced in June 2021. There were 3,043 reports in 2024/25.
22. We have continued with the micro-asphalt programme this year to help reduce the number of potholes forming. We continue to carry out highway safety inspections at a suitable frequency to ensure that potholes are identified and repaired as soon as possible. In 2024/25 6,341 potholes were repaired.
23. The Automated Vehicles Act 2024 included a requirement for Traffic Authorities to submit details of traffic regulation orders in digital form (D-TRO) to a central hub managed by the Department for Transport. This requirement is expected to come into force in 2026, however, the Council began sending D-TRO’s to the hub in November 2025 using the Aurora system.
24. The 2026/27 structural maintenance program of works consists of 12 carriageway schemes and 1 back lane refurbishment, and the preventative maintenance program comprises of 18,968m² of surface dressing over two sites. In addition to this we will also be completing 2 footway refurbishment schemes. We will continue to utilise lower carbon materials and construction methods to reduce our carbon emissions (where practicable). The annual program and 5 year program will be updated on the Council website in due course.
25. The proactive tree risk management processes continue to provide positive results, enabling the Council to defend the majority of storm and subsidence compensation claims received. A full tree survey of the borough is due to be completed in January 2026. This will make all the trees easier to monitor for any safety issues that may occur in their positions in regard to roads and buildings. This is alongside the ongoing works of pruning and the removal of dead and dangerous trees to keep the public safe. The Council’s website has been updated to make the public more aware of tree law and their rights and easier for them to report any safety issues they may have.
26. In relation to sickness absence, the half year position for days lost was 3.99% or 4.41 days per full time employee (FTE), this represents an improvement of 0.41 days per FTE compared to 2024/25. As can be seen from the table below, from the information we received, although similar, we compare favourably with our neighbours.

Council	Actual Days lost 2024/25	Actual Days lost Half year 2025/26
Darlington	4.82	4.41
Hartlepool	5.16	5.98
Middlesbrough	Not declared	Not declared
Redcar & Cleveland	3.95	4.72
Stockton	4.80	5.10

27. The management of sickness absence is a high priority for managers 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, phased returns, temporarily adjusted duties, dyslexia/ADHD assessments, referrals to Access to Work, extensions of probation period, non-confirmation of employment after probationary period, formal caution, redeployment to alternative roles and ill health capability dismissals.

28. Management and HR continue to be supported by a proactive Occupational Health Team. There were 132 occupational health appointments, for each of these appointments the Occupational Health Nurse writes a report, these are professional insights informing managers of progress, and recommending appropriate reasonable adjustments which could be made, including details of phased returns. Cases are escalated to an Occupational Health Doctor for advice as required.
29. Together with the reactive measures above, we have also continued to promote proactive, preventative initiatives such as Counselling, Physiotherapy, Stress Risk Assessments, Flu jabs and offered various courses and sessions around resilience and mental health. We delivered 351 flu jabs to Council employees this year.
30. We have recently launched our 2025–2030 Workforce Strategy, which includes a dedicated Health and Wellbeing Framework. This framework sets out three key objectives and priorities, outlining how we will achieve them. However, improving sickness absence is not solely dependent on this framework. There is a golden thread running through all five frameworks—focused on enhancing our workforce by being compassionate, inclusive, engaging, and forward-thinking. Each framework has defined measures, enabling us to monitor progress and ensure they deliver the desired impact.
31. Linked to this and following the success of last year's January Wellness Clinic we are planning to launch a refreshed version in January 2026. This will include full range of activities and suggestions to help our employees think about their health, body and mind. They can get involved as much, or as little as they feel comfortable, the activities are just suggestions to inspire them to think about what they could do in January to make health and wellbeing to a priority. The choice is theirs.
32. In September 2025 we initiated a new regional absence group called the North East Health, Attendance and Wellbeing group. This group is chaired by Darlington Council and the focus of the group is on reducing employee sickness absence and creating sustainable and healthy workplaces by sharing best practice. The group is underpinned by 5 sub-groups with specific, time bound goals. The meetings will start early 2026 with findings and initial recommendations expected to be ready in summer 2026.

Conclusion

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

Outcome of Consultation

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

COUNCIL PLAN OBJECTIVES**APPENDIX A**

Council Plan Priorities	Strategic Risk(s) relevant to delivery of Council Plan Priorities
CP1 - A strong sustainable economy and highly skilled workforce with opportunities for all.	<p>Those above the 'risk appetite line' – SR22, SR34, SR35, SR48, SR54, SR55</p> <p>Those below the 'risk appetite line' – SR1, SR8, SR10, SR13, SR14, SR23, SR24, SR36, SR39, SR40, SR41, SR47, SR57</p>
CP2 - Affordable and secure homes that meet the current and future needs of residents.	<p>Those above the 'risk appetite line' – SR15, SR48, SR54, SR55</p> <p>Those below the 'risk appetite line' – SR39, SR45, SR57</p>
CP3 - A healthier and better quality of life for longer, supporting those who need it most.	<p>Those above the 'risk appetite line' – SR20, SR22, SR48, SR54, SR55</p> <p>Those below the 'risk appetite line' – SR18, SR23, SR24, SR26, SR42, SR46</p>
CP4 - Best start in life, realising potential and raising aspirations.	<p>Those above the 'risk appetite line' – SR16, SR21, SR27, SR48, SR54, SR55</p> <p>Those below the 'risk appetite line' – SR17, SR19, SR23, SR31, SR47, SR49</p>
CP5 - Healthier, safer and more engaged communities.	<p>Those above the 'risk appetite line' – SR16, SR21, SR27, SR48, SR54, SR55</p> <p>Those below the 'risk appetite line' – SR17, SR37, SR47</p>
CP6 - A well-connected, clean and sustainable borough.	<p>Those above the 'risk appetite line' – SR35, SR48, SR54, SR55</p> <p>Those below the 'risk appetite line' – SR36, SR40, SR47, SR56</p>

RISK MATRIX**APPENDIX B****STRATEGIC RISK REGISTER**

LIKELIHOOD	A Very High		SR50		
	B High			SR21, SR48, SR54, SR55	
	C Significant		SR13, SR41, SR45, SR58	SR15, SR16, SR20, SR34, SR35, SR22	
	D Low		SR11, SR12	SR3, SR6, SR7, SR8, SR10, SR14, SR17, SR18, SR19, SR23, SR24, SR25, SR26, SR31, SR36, SR37, SR39, SR40, SR42, SR46, SR49, SR53, SR56	SR27
	E Very Low		SR1, SR57		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 Ministry of Housing, Communities and Local Government (MHCLG) for homeless services. More accommodation and support have 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 approved and implemented to address these issues and a new National Plan to End Homelessness has recently been published.
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

for budget efficiencies / Joss Harbron		=	<p>and disabilities and require intensive support to remain at home and as independent as possible. Covid has also had a significant impact on people's wellbeing and support needs with increases in frailty and co-morbidities in both older and working age adults. 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.</p> <p>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).</p> <p>Due to recent High Court rulings on Ordinary Resident cases there is a risk to the Council for financial liability for people under this new rule. Adult Services have identified the current cases and are working with the relevant local authorities to agree responsibilities. A regional agreement has been reached with 10 of the 13 Local Authorities to have reciprocal arrangements on Ordinary Resident applications.</p> <p>As part of the transition to adulthood we are working with Children's Services on a number of significant high cost packages of care, with the primary aim of providing appropriate support within the available resources and less restrictive option for the individual.</p>
--	--	---	---

				Adult Social Care continue to review the transformation plan to ensure efficiencies and saving are delivered to enable a managed budget. In January 2026 the service will undertake a project to review working age adults – our biggest spend per person to explore ways of meeting need whilst reducing cost. This will further mitigate risks.
SR21 (CP4, CP5)	Increased demand for Children's Services impacts negatively on budget / Chris Bell	B -High / II - Critical = B/II	No movement 	Children's Services has a well established Strengthening Families Plan which is focused on effective management of demand for Children's Services Support. Quarterly Key Performance Indicators linked to the plan are reported to Children's and Young People's Children's Scrutiny Committee.
SR22 (CP1, CP3)	Market (Domiciliary Care Residential Care providers) failure following the Care Act/Living Wage/Employers National Insurance Contribution (ENI) / Christine Sheilds	C – Significant / II – Critical = C/II	No movement 	The national changes to Employers National Insurance Contributions (ENI) have resulted in additional cost pressures to the care provider market. The Council has provided additional financial support to key care providers of 1.2% on current fee levels and will be carefully monitoring the situation over the coming months to ensure provider stability is protected.
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	C – Significant / II – Critical = C/II	No movement 	Construction material prices continue to 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

	complete schemes/projects in the event of further construction inflation, material supply and resource demands / Ant Hewitt			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 Government and routes are withdrawn / Ant Hewitt	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. In recent years the Tees Valley Combined Authority (TVCA) have funded a number of previously commercial services in Darlington which had been withdrawn using Bus Service Improvement Plan funding from Government. Government has recently announced Local Authority Bus Grant funding for a three year period which will allow further support of services subject to the outcome of a network review which is currently underway.
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 	<p>The Council continues to face significant financial challenges stemming from a reduction in public funding in previous years, cost of living increases, high inflation, income deprivation and significant increases in service demand, particularly following Covid where the demand for both adult and children's services increased significantly. The Government have reviewed the way councils are funded and have released a draft settlement for consultation which would see Darlington's funding position improve, however, the continued demand for services continues creating uncertainty.</p> <p>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, however additional demands are putting pressure on all services and with limited discretionary service provision. As part of MTFP planning the Council is facing these challenges, however with each increase in demand this risk remains high.</p>

				<p>The 25/26 - 28/29 Medium Term Financial Plan (MTFP) approved by Council in February 2025 including further savings of over £20m across the four years of the plan, which along with increased resources from the 2025/26 Local Government settlement and a Council Tax increase of 4.99% for 2025/26 reduces the annual deficit from the previous MTFP. 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.</p> <p>The Council has commenced budget preparation for the next MTFP 2026/27 to 2029/30 which will be approved by Full Council in February 2026. As part of that exercise all budgets have been reviewed to ensure resources are allocated to priorities. We are consulting on a Council Tax increase of 4.99% (including the Adult Social Care Levy) in line with the maximum allowable by Government to increase income to reduce the annual deficit. Work has been approved to transform support for working aged adults which will provide savings in the future.</p> <p>The Government continues to invest in prevention within children's social care which will reduce the number of children coming into care which is one of Darlington's largest budget pressures currently. This will provide savings down stream to allow resources to be reallocated to other priorities.</p>
SR50	Disclaimed opinion in relation to 2022/23, 2023/24 and 2024/25 accounts /Brett Nielsen	A – Very High /III - Marginal = A/III	Increased 	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.

				<p>As our auditors were unable to complete a full audit of the 2022/23 and 2023/24 accounts, Darlington were issued with a Disclaimer of opinion to complete the accounts within the deadlines.</p> <p>For 2024/25 our auditors have notified that there are issues within the sector concerning gaining consistency for the “proof in total” concept for International Standards of Auditing requirements therefore requiring auditors to undertake full audits of disclaimed years. Due to time constraints this is not possible before the backstop date, therefore Darlington will be issued with a disclaimed opinion for 2024/25.</p> <p>Our auditors are undertaking a fuller audit of the 2024/25 accounts which will lay the foundations for potential normal reporting in 2025/26 should a solution be found for the disclaimed years. The Council continues to work closely with our auditors to ensure we can meet all reporting required and avoid further disclaimed opinions.</p> <p>As part of the backstop arrangements auditors are required to undertake value for money work for 2024/25 our auditors have completed this work and not reported any actual significant weaknesses in arrangements to secure value for money in our use of resources. This work backs up the Council’s drive to ensure we have strong robust financial controls ensuring governance through procurement and accounting processes.</p> <p>Auditors are also required to review the Annual Governance Statement (AGS) which has been undertaken for 2023/24 and they have confirmed that the AGS is not misleading or inconsistent.</p>
SR54 (CP1, CP2, CP3, CP4, CP5 & CP6)	Potential increased ICT costs as a result of the limited number of corporate system suppliers in the market place moving to Software as a	B – High / II – Critical = B/II	No movement	<p>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</p>

	Service (SaaS) model / Neil Bowerbank			market will continue to be raised with Government through formal and informal channels.
SR55 (CP1, CP2, CP3, CP4, CP5 & CP6)	Likelihood of a Cyber Incident impacting on the Council's 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 catastrophic operational disruption / Ian Coxon	B – High / II – Critical = B/II	No movement 	Xentrall ICT continues to invest significant time and resource to ensure the Council's cyber security posture is reviewed and where possible strengthened. These activities are based on the analysis and learning from recent cyber incidents affecting other local authorities as well as the latest threat intelligence from various national sources. Xentrall ICT have recently implemented a SOC (Security Operations Centre) which provides additional monitoring of suspicious activity as well as specialist support should the Cyber Incident Response Plan be activated. Resources within the service have been increased with new dedicated cyber roles now in place. In conjunction with Information Governance, Xentrall ICT run regular phishing exercises which help to raise awareness on the dangers of malicious emails and how to ask for help. It should be noted that the impact of a cyber incident upon council services will be dictated by the quality/preparedness of individual Business Continuity Plans that services should maintain.

Remainder of Strategic Risks

Risk No. & relevant Council Plan objective(s)	Risk / Responsible Person	Likelihood / Impact = Position on Matrix	Movement in Period	Reason for Movement on Matrix
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 / Trevor Watson	D - Low / II - Critical = D/II	No movement 	
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 / Trevor Watson	D - Low / II - Critical = D/II	No movement 	

SR10 (CP1)	Planning Performance at risk of Standards Authority intervention / Lisa Hutchinson	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	No movement 	
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)	Risk Re-worded Inability to provide sufficient resource to meet statutory duties regarding elective home education due to significant rise in numbers / Tony Murphy	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	
SR36 (CP1, CP6)	Failure to meet the Council's commitment to becoming Carbon neutral by 2040 / Trevor Watson	D - Low / II - Critical = D/II	No movement	
SR37 (CP5)	Failure to deliver the Prevent duty including operating an effective Channel Panel / Ben Grabham & Chris Bell	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 / Trevor Watson	D - Low / II - Critical = D/II	No movement	

SR40 (CP1, CP6)	Failure to adequately plan for 2°C global temperature rise / Trevor Watson	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) / Amy Wennington	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 from previous years and the impact on services / Anthony Sandys	C – Signifiant / III – Marginal = C/III	No movement 	
SR46 (CP3)	Risk Re-worded Adult social care awaiting allocation / 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,	E – Very Low / I – Catastrophic = E/I	No movement	

	for example, a terrorist attack, power outage or issue affecting fresh water / Trevor Watson			
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 (CP3, CP5)	Risk removed Additional funding for preventing harm from substance misuse may not continue beyond March 2026 / Lorraine Hughes	D – Low / II – Critical = D/II	Removed from D/II 	Funding for substance misuse has been consolidated into the public health grant over the 3 years of the multi-year settlement. The grant will continue to be ringfenced.
SR52 (CP3)	Risk removed Additional funding for stop smoking services and support available for the financial year 2025/26, with ambitious targets for smoking quits. Funding is only confirmed until end of March 2026 / Lorraine Hughes	D - Low / III - Marginal = D/III	Removed from D/II 	The local stop smoking services and support grant has been consolidated into the public health grant over the 3 years of the multi-year settlement. The grant will continue to be ringfenced.

SR53	Additional challenges introduced by the implementation of the Procurement Act 2023 / Amy Wennington	D - Low / II - Critical = D/II	No movement	
SR56 (CP6)	Management of significant change in the management of waste across the Borough / Ben Graham	D - Low / II – Critical – D/II	No movement	Plans are in place to deliver weekly food waste collections from 31 March 2026. New vehicles have been ordered and are due to be delivered in February/March. Containers will be distributed to all households across a 10-week delivery window from late January onwards. Additional drivers have been recruited with waste operative positions to be interviewed for in January. Contractual arrangements agreed with a local food waste treatment facility. The recycling service will also move to a weekly service from 31 March 2026 increasing opportunities for residents to maximise the amount of waste they recycle.
SR57 (CP1, CP2)	Building Safety Regulator audits – Guy Metcalfe / Trevor Watson	E – Very Low / III – Marginal – E/III	Risk Reduced	BSR audit now received with no serious risks identified. A number of the recommendations have already been addressed and an action plan will be produced to mitigate the other low risks identified.

SR58 (CP3, CP5)	New Risk Additional conditions have been applied to the consolidated public health grant, which will necessitate more detailed reporting arrangements, external peer review and grant assurance deep dives / Lorraine Hughes	C – Significant / III – Marginal = C/III	New Risk 	<p>The additional requirements as set out in the public health grant conditions and communicated by the Office for Health Improvement and Disparities (OHID) will place additional demand on staff capacity within the public health team and require more detailed financial reporting.</p> <p>All local authorities are expected to participate in and support public health peer reviews as part of the Best Value Duty to secure continuous improvement in how they carry out their work. This will require the Director of Public Health to participate in a peer review for another local authority. The Darlington public health peer review will consider how the Local Authority is meeting its duty to take appropriate steps to improve the health of residents, as set out in the Health and Social Care Act 2012.</p> <p>From 2026 it is now a requirement to submit for approval to the Department of Health and Social Care (DHSC) an annual prevention, treatment and recovery plan for the use of drug and alcohol funding.</p> <p>From April 2026 it is now a requirement for Directors of Public Health to complete a bi-annual report for ringfenced smoking cessation and drug and alcohol funding totals.</p> <p>From April 2026 any local authority achieving less than 5% of their smoking population setting quit dates must submit a self-assessment audit within the financial year to DHSC. If 5% or more is achieved the audit is recommended but not mandated.</p> <p>In 2025/26 financial year the Local Authority was required to undertake additional assurance work on the use of the ringfenced public health grant, via a deep dive on miscellaneous spend from the grant. The return was submitted to OHID for review, the outcome is not yet known.</p> <p>Additional assurance reviews will be required on an annual basis, the areas of focus are not yet known but it has been indicated this could include a review of all spend from the public health grant across wider</p>
----------------------------	--	--	--	--

		<p>Council services, to determine if the spend meets the conditions of the grant. This could present a future financial risk if some areas of spend from the public health grant across the wider Council are deemed to not comply with the conditions of the public health grant.</p> <p>As further detail emerges the Director of Public Health will work with the Public Health Team and other Council officers to ensure the additional requirements can be met.</p>
--	--	--

This page is intentionally left blank

**AUDIT COMMITTEE
19 JANUARY 2026**

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		Assurance
Rsk Ref	Risk	
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 breach due to exempt VAT being close to the 5% limit	100.00
SR13	Instability within financial markets adversely impacts on finance costs and investments	100.00
SR14	Financial pressures to the General Fund as a result of increased levels of unemployment and increased Council Tax Support claims	100.00
SR15	Inability to cope with significant increase in homelessness cases following the impact of COVID,	100.00
SR16	Inability to contain placement costs for children looked after due to lack of sufficient in house placements	100.00
SR17	Inability to recruit and retain sufficient qualified suitably experienced social workers in Children's Services impacts on cost and quality of service	100.00
SR18	Inability to recruit and retain sufficient qualified suitably experienced social workers and reablement staff in Adult Services impacts on cost and quality of service	100.00
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	96.55
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	87.80
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.	95.00
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 only 1 area currently below 80%. The majority of controls in the High/Very High categories are showing as Green with no Reds.

Detailed Commentary

People - We continue to note challenges in meeting the 95% completion rate for mandatory information governance training, however this is offset by good assurance generally in relation to information governance.

Results by Theme

Theme	1 Red	2 Amber	3 Green	Total
Application for a Service/Support	1	8	26	35
Application for an Approval/Permission		3	26	29
Assets		2	20	22
Business Continuity			26	26
Corporate Governance		3	53	56
Finance	5	2	105	112
ICT			23	23
Information Governance	4		38	42
People	6	12	31	49
Performance Management	1		7	8
Procurement/Contracts		2	23	25
Regulatory Services		2	14	16
Total	17	34	392	443

Assurance by Theme

Theme	Assurance
Application for a Service/Support	85.06
Application for an Approval/Permission	95.10
Assets	94.16
Business Continuity	100.00
Corporate Governance	98.08
Finance	95.47
ICT	100.00
Information Governance	94.20
People	70.00
Performance Management	93.75
Procurement/Contracts	97.03
Regulatory Services	93.75
Total	92.00

Overall Results

Status	1 Very Low	2 Low	3 Medium	4 High	5 Very High	Total
1 Red	10	7				17
2 Amber	14	12	5	3	34	
3 Green	23	181	115	57	16	392
Total	23	205	134	62	19	443

Results in Period

Status	2 Low	3 Medium	4 High	5 Very High	Total
1 Red	4	6			10
2 Amber	2	5	3	1	11
3 Green	12	19	16	7	54
Total	18	30	19	8	75

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 2 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
Adults	1		5			6
Children's Services	3	1	14	1		19
Community Services	5	4	9			18
Economic Growth	6		9		1	16
Education	1		2			3
Housing & Revenue Services	1	1	5			7
Law & Governance			8	1		9
Public Health			3			3
Resources		2	2			4
Strategy, Performance & Communications			4		1	5
Transport & Capital Projects			1			1
Xentral	1	1	4			6
Total	18	9	66	2	2	97

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 achieved our target for this period. Members may recall that we were marginally short of the target in the last period, in terms of the overall position for the year we have completed 177 pieces of work against a pro-rata target of 170.

Stewardship (Coverage)			Stakeholders		
Measure	Target	Actual	Measure	Target	Actual
Adequate Resources	15	15	Reporting	Qtrly	*
Portfolio Coverage	73	75	Fraud Strategy	November	*
Annual Report	June	*	Satisfaction	TBC	*
Activity	Qtrly	*	Recommendation Implementation	TBC	*

Process			People		
Measure	Target	Actual	Measure	Target	Actual
PSIAS Internal Review	March	*	Productivity	75%	74%
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 who has moved onto flexible retirement in April.
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.
15. During 2025 SBC procured a new system designed to manage projects and KPI's, an additional module of this platform relates to Governance, Risk and Compliance, the decision was made to move internal audit work onto this new platform. The existing platform has been in place since 2007 and has not seen any developments for a number of years and is approaching end of life. We are currently in the implementation phase with an expected go live date at the end of January 2026. Whilst we aim to keep disruption to a minimum there is likely to be some

development time required because whilst the system fundamentally follows the existing principles to the current system (i.e. work is focussed around testing individual controls) there are some structural changes required to get the full benefit of the new system. Some of this development work will lead to some changes to reporting which should see some significant improvements.

Outcome of Consultation

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

ID	Control	Frequency
214	Procurement by Legal Services is in line with contract procedure rules and value for money principles.	3
539	Review of care packages for continued suitability, review outcomes are recorded and follow up action taken as appropriate.	3
684	National Fraud Initiative (NFI) matches in relation to Council Tax Reduction Scheme are promptly reviewed and investigations undertaken as necessary.	3
685	National Fraud Initiative (NFI) matches in relation to Housing Benefits Claimants are promptly reviewed and investigations undertaken as necessary.	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
36	Children's cases are reviewed to ensure the type of placement remains suitable, with family reunification considered.	6
49	Children's cases are appropriately supervised with regular discussion and appropriate recording.	6
54	Systems are updated with the relevant referral information.	6
56	Agreements for early years provision are in place and being complied with and monitoring visits are being undertaken.	6
112	Process Council Tax Reduction claims.	6
113	Process Housing Benefit claims.	6
116	Council employed drivers and passenger assistants hold the necessary DBS clearances, licences, qualifications and training.	6
137	Accurate charging and effective income management in relation to civic enforcement activity.	6
142	Staff delivering community alarm services hold appropriate qualifications, training and DBS clearances.	6
145	Public Rights of Way Improvement Plan is in place and progress against this monitored.	6
165	Adult Services has a strategy in place and processes are in place to monitor its delivery.	6
174	Adult Social Care cases are allocated appropriately considering caseloads, complexity, qualification and experience.	6
179	Appropriate service provision has been sourced to meet an Adult Social Care users individual needs.	6
182	Where the Authority has Deputyship/Appointeeship, appropriate authorisation/legal documentation is in place.	6
203	Website and Intranet content is relevant and up to date.	6
218	Posts requiring a DBS check are identified and requirements are in line with legislation.	6
249	Timely and accurate financial assessments are undertaken for service users wishing to take up a service.	6
259	Records relating to Environmental Health cases are appropriately recorded and managed.	6
270	Building control decisions are appropriately authorised and made in line with Building Regulations, with audit trails in place to support decisions made.	6
343	The appointment process is fair, robust and managed effectively.	6
345	All newly appointed employees are subject to an appropriate induction.	6
356	Address patterns of absence and support regular attendance at school.	6
514	An appropriate fee has been received for building control applications.	6
522	Financial assistance to businesses decisions are accurately recorded.	6
526	Changes in circumstances for council tax reduction and housing benefit claimants are processed appropriately.	6
551	Discretionary housing payments are awarded in accordance with the scheme.	6
871	Procurement of museum catering and merchandise stock is undertaken in accordance with contract procedure rules.	6
28	In-house carers within children's residential settings receive appropriate training.	12
76	Ensure accurate monitoring of capital programme and schemes.	12
79	Maintain formula and support for funding schools and high needs.	12
97	Prepare statement of accounts.	12
279	Privileged access to Active Directory administration functionality is appropriately controlled and secured.	12
298	Adequate and appropriate arrangements are in place in respect of business continuity and disaster recovery for the network infrastructure (including backup arrangements and arrangements to ensure network resilience).	12
307	Appropriate access controls are in place to secure the virtualised (on-premise and cloud) environments.	12

ID	Control	Frequency
365	Management and oversight of youth offending cases improve outcomes for young people involved in criminal justice system or at risk of becoming involved.	12
464	Effective commissioning and procurement of public health services and programmes.	12
544	Payment of direct payments is accurate and timely.	12
827	Privileged access to Microsoft 365 administration functionality is appropriately controlled and secured.	12
1520	Compliance with DEFRA funding terms and conditions for grant payments received for the delivery of weekly food waste collections.	12
1530	Compliance with the Homes England policies, procedures and funding conditions.	12
20	Policies and procedures are in place to ensure a child in care's life story is documented.	18
40	School places have been allocated in accordance with admissions policies.	18
59	Allocation of school budgets in line with funding formula.	18
64	Clear acquisition, disposal and revaluation process for land and buildings.	18
75	Ensure accurate in-year financial monitoring	18
89	Development of an appropriate risk assessed H&S audit programme.	18
104	Monitor and support the quality of external contracted adult care provision.	18
120	Costs and demand for Community (SBC) and Passenger Transport (DBC) services are monitored to ensure the best use of resources is applied.	18
177	Adult Social Care staff are aware of Health & Safety requirements and have received appropriate H & S training.	18
183	Where legal charges have been placed on a service user's property, appropriate deferred payment/legal documentation is in place.	18
228	Venues for events are appropriate.	18
310	HMRC reporting requirements are being complied with.	18
325	Invoice certification procedures should confirm that: goods and services have been received; prices have been checked; discounts have been taken and the invoice has not been paid before.	18
381	Targeted and prioritised support and provision to deliver energy saving schemes and tackle fuel poverty.	18
485	In-house foster carer details are accurately recorded and updated.	18
510	Monitoring is undertaken to ensure compliance with planning decisions and appeals are handled appropriately.	18
527	Records relating to Council Tax Reduction and Housing Benefit are accurate and up to date.	18
548	Payments made for discretionary housing payments are accurate.	18
796	Staff are aware of the confidential reporting/whistleblowing policy and nominated officers have received appropriate training.	18
44	Children's Assessment procedures are comprehensive and up to date	24
87	Co-ordinate complaints process.	24
153	The highways network resilience to extreme events such as weather has been fully established and plans are in place to manage this.	24
157	The authority has an adequate, appropriate and up to date Homeless Reduction and Prevention Strategy in place.	24
188	A Carers strategy is in place and processes are in place to monitor delivery.	24
193	Payments made to providers of employee benefit schemes are accurate.	24
223	Effective procurement/commissioning of training and development providers ensures value for money and compliance with contract procedure rules.	24
239	Contingency arrangements are in place to enable adult education courses and qualification provision to continue in the event of disruption to premises, teaching facilities or staff.	24
265	Street works are licensed, inspected and, where applicable, appropriate charges are issued and collected for overruns/fines.	24
287	An adequate and appropriate software asset and license register/inventory is maintained.	24
288	Sufficient appropriate policing/auditing of software installation/use and licensing compliance is undertaken.	24
308	An appropriate inventory of all significant ICT equipment is maintained. Including servers, PCs, laptops, tablets, etc.	24
340	Early retirement is only granted to an employee in accordance with Council policies and that associated calculations made based on this are accurate.	24
454	Health and safety standards are maintained within our parks and green spaces.	24
460	Security and crime prevention measures are in place in relation to parks and green spaces.	24
462	Provision and upkeep of outdoor public seating and street furniture.	24
479	Up to date and accessible procedures available to support the management of Adult Social Care users files.	24
480	Employee hard copy files are adequately safeguarded.	24
489	School admissions records are accurate and up-to-date.	24
528	Decisions to award discounts for council tax and rate relief for business rates are appropriate.	24
529	Council Tax/NDR information is accurate and up to date.	24
530	Discounts/Rate Relief is monitored for continued eligibility and there is an appropriate appeals process in place.	24
542	Financial assessments are reviewed and updated for changes in circumstances.	24
469	Monitoring and evaluation of social media content.	48
550	Council Tax support/housing benefit overpayments are managed effectively.	48

This page is intentionally left blank

**AUDIT COMMITTEE
19 JANUARY 2026**

FINAL ACCOUNTS TIMETABLE FOR THE YEAR ENDED 31 MARCH 2026

SUMMARY REPORT

Purpose of the Report

1. To provide Members with the Final Accounts Closedown Timetable for 2025/26. 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 Executive Director Resources and Governance to sign and certify the unaudited SoA 2025/26 by no later than 30 June 2026 and it is also the responsibility of the Audit Committee to approve the 2025/26 audited set of accounts on or before 31 January 2027.
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 2025/26 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 2025/26 Statement of Accounts.

**Elizabeth Davison
Executive Director Resources and Governance**

Background Papers

Code of Practice on Local Authority Accounting in the UK 2025/26

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 2025/26 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 31 January 2027, approval needs to be given to the SoA by resolution of a committee, which for Darlington is the Audit Committee. This may need to be a Special Audit Committee meeting if required. This approval will take into account the views of the External Auditor. The 2024 regulations also state that the audited 2025/26 SoA must be published by 31 January 2027.
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 2026, 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

2025/26 Accounts - General Closure Timetable

<u>Date for Completion</u>	<u>Item</u>
March	<ul style="list-style-type: none">27 On-line goods receipting of orders relating to 2025/26 to be completed (including order authorisation).27 End of facility for on-line processing of purchase invoices in Business World On! relating to 2025/26 to be posted to period 12 of that year.
April	<ul style="list-style-type: none">7 All interface files posted to Council's General Ledger7 Petty cash and stock valuation certificates, certified by authorised signatories, sent to Financial Services.7 Details of purchase invoices and sundry debtor accounts relating to 2025/26 not paid by 31/03/2026 to be given to Departmental Finance Teams for provision in 2025/26 accounts (invoice values above £500 only).10 Bank reconciliation to be completed10 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.10 All expenditure and income relating to 2025/26 identified and included in accounts to enable progress of next stages of process.10 Control accounts balanced and all holding accounts cleared.10 Internal recharges completed including inter-departmental recharges.10 Intra-departmental apportionments and reallocations completed10 Capital Charges to revenue accounts24 Comparison of out-turn income and expenditure with approved budgets - including analysis of significant variances and any resulting corrective action including coding corrections.24 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.

January

- 18 Audit Committee Meeting – approval of Statement of Accounts (guide)
- 31 Publication of audited Statement of Accounts (latest date)

This page is intentionally left blank

AUDIT COMMITTEE
19 JANUARY 2026

PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT STRATEGY REPORT 2026/27

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 2026/27 to 2028/29 relating to capital expenditure and Treasury Management activity.
 - (b) A policy statement relating to the Minimum Revenue Provision.
 - (c) The Treasury Management Strategy 2026/27, which includes the Annual Investment Strategy for 2026/27.
2. The report outlines the Council's prudential indicators for 2026/27 – 2028/29 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 Council's 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 2026/27 to 2028/29 summarised in Tables 1 and 2.
- (b) The Minimum Revenue Provision (MRP) statement (paragraphs 39 – 48).
- (c) The Treasury Management Strategy 2026/27 to 2028/29 as summarised in paragraphs 52 to 82.
- (d) The Annual Investment Strategy 2026/27 contained in paragraphs 83 to 115.

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 2024/25
- (ii) Draft MTFP (incl Capital MTFP 2026/27 to 2029/30)
- (iii) Draft Capital Strategy
- (iv) MUFG Corporate Markets Treasury Limited Economic Report Dec 2025

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 extolling how they incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings. Our Treasury Management advisors update us on any changes to counterparty ratings and look at ESG factors into their creditworthiness assessment service.

Treasury Management Strategy for 2026/27

20. The strategy for 2026/27 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

	2025/26 Revised	2026/27 Estimated	2027/28 Estimated	2028/29 Estimated
Capital Expenditure Tables 3 and 4	68.649	88.502	43.400	18.157
Capital financing requirement - Table 5	261.784	286.391	294.188	295.186
Ratio of financing costs to net revenue stream – General Fund - Table 6	4.10%	4.02%	3.54%	3.43%
Ratio of financing costs to net revenue stream –HRA - Table 6	12.49%	14.07%	12.51%	12.62%
Operational boundary for external debt - Table 9	205.352	229.650	242.014	247.816
Authorised limit for external debt - Table 10	274.873	300.710	308.897	309.945

Table 2 – Treasury Management

	2026/27 Upper Limit	2027/28 Upper Limit	2028/29 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 2026/27			
		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 are to be arranged as soon as practically possible. 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 2026/27– 2028/29

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

	2025/26 Revised £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
General Fund	34.550	33.381	11.595	5.191
HRA	29.509	35.007	24.210	12.203
Estimated Capital Expenditure	64.059	68.388	35.805	17.394
Loans to Joint Ventures	4.590	20.114	7.595	0.763
Total	68.649	88.502	43.400	18.157

28. The financing need above excludes other long-term liabilities, such as PFI and Right of Use Assets 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

	2025/26 Revised £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
General Fund	34.550	33.381	11.595	5.191
HRA	29.509	35.007	24.210	12.203
Loans to Joint Ventures	4.590	20.114	7.595	0.763
Total Capital	68.649	88.502	43.400	18.157
Financed by:				
Capital receipts -General Fund	4.182	4.064	3.355	0.650
Capital receipts - Housing	0.312	0.312	0.300	0.300
Capital grants	31.290	20.513	9.113	4.541
JV Repayments	1.000	4.894	9.151	8.808

Self-financing - GF	0.275	0.146	0.160	0.000
Revenue Contributions (Housing)	19.644	29.591	15.210	11.903
Total excluding borrowing	56.703	59.520	37.289	26.202
Net financing need for the year	11.946	28.982	6.111	-8.045

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

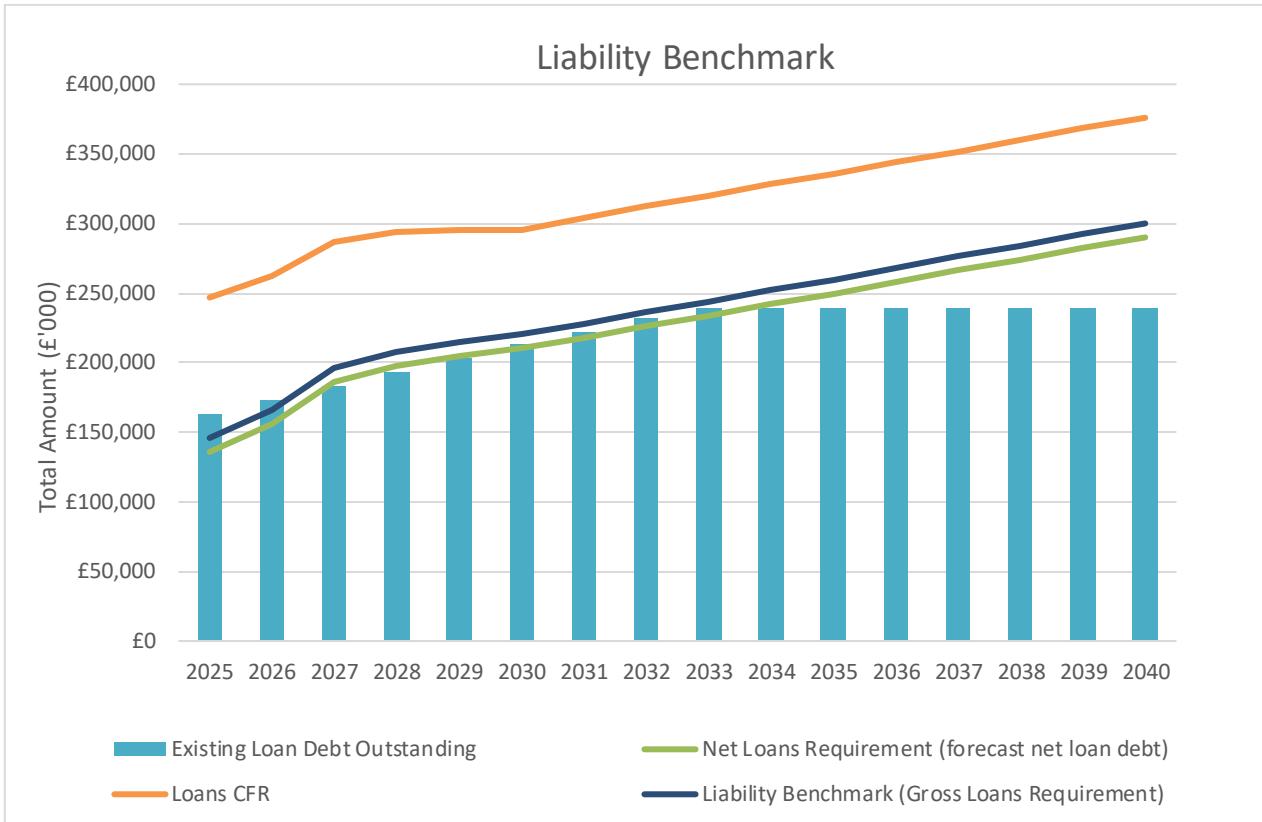
30. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its 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 & Right of Use Assets) 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 so the Council is not required to separately borrow for these schemes. The Council currently has £8.519m of such schemes within the CFR.
33. The Committee is asked to approve the CFR projections below:

Table 5 – CFR Projections

	2025/26 Revised £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
CFR – General Fund	155.431	156.441	157.776	159.073
CFR – PFI	4.817	3.725	2.633	1.541
CFR – Right of Use Assets	3.702	4.034	4.365	4.696
CFR – housing	79.239	88.537	97.635	106.534
CFR - Loans to JV's	18.595	33.654	31.779	23.342
Total CFR	261.784	286.391	294.188	295.186
Movement in CFR		24.607	7.797	0.998

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 2026/27 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 MHCLG 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

	2025/26 Revised	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
General Fund	4.10%	4.02%	3.54%	3.43%
HRA	12.49%	14.07%	12.51%	12.62%

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 appropriate 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 currently has 2 Property Funds with a total investment as at 31st December 2025 of £16m. These are expected to bring a gross return of between 2.50% and 3.50% over the life of the MTFP. In 2024/25 (the Council had 3 funds) property funds returned £0.981m in dividends.

54. Capital values of property funds do fluctuate over time and due to prevailing economic conditions over the past few years the capital value of our investments has decreased. During 2025/26 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. The final assets of the Lothbury fund have now been disposed and the fund is now in the final stages of the wind up process. It is anticipated the fund will close in May 2026.

56. 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

57. The overall treasury management portfolio as at 31 March 2025 and for the position as at 31 December 2025 are shown below for both borrowings and investments.

Table 7 – Treasury Portfolio

TREASURY PORTFOLIO				
	Actual 31/03/2025 £m's	Actual 31/03/2025 %	Current 31/12/2025 £m's	Current 31/12/2025 %
Treasury Investments				
Banks	0.000	0.0	0.000	0.0
local authorities	0.000	0.0	0.000	0.0
money market funds	10.090	28.5	11.520	42.1
Total managed in house	10.090	28.5	11.520	42.1
Property funds	25.318	71.5	15.854	57.9
Total managed externally	25.318	71.5	15.854	57.9
Total treasury investments	35.408	100.0	27.374	100.0
Treasury external borrowing				
local authorities	37.000	21.4	30.000	18.4
PWLB	123.138	71.3	123.068	75.6
LOBO's	12.600	7.3	9.600	6.0
Total external borrowing	172.738	100.0	162.668	100.0
Net treasury borrowing	137.330		135.294	

58. The Council's expected treasury portfolio position at 31 March 2026, 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

	2025/26 Revised £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Debt at 31 March	178.238	188.238	203.238	218.238
Loans to Joint Ventures	18.595	33.654	31.779	23.342
Other long-term liabilities (OLTL)	8.519	7.758	6.997	6.236

Gross Actual debt at 31 March	205.352	229.650	242.014	247.816
The Capital Financing Requirement from Table 5	261.784	286.391	294.188	295.186
Under / (over) borrowing	56.432	56.741	52.174	47.370

59. 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 2026/27 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.

60. 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

61. 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

	2025/26 Revised £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Debt from Table 8 (incl JV's)	196.833	221.892	235.017	241.580
Other long-term liabilities	8.519	7.758	6.997	6.236
Operational Boundary	205.352	229.650	242.014	247.816

The Authorised Limit for external debt

62. 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:

63. 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.

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

Table 10 – Authorised Limit

	2025/26 Revised £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
CFR	261.784	286.391	294.188	295.186
Additional Headroom @ 5%	13.089	14.320	14.709	14.759
Authorised Limit	274.873	300.710	308.897	309.945

65. It is proposed that the additional headroom for years 2026/27 to 2028/29 is 5% above the CFR, this would allow for any additional cashflow needs throughout the years.

Prospects for Interest Rates

66. 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 MUFG Corporate Markets Treasury Limited 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 2025	3.75	5.00	5.30	5.80	5.40
Mar 2026	3.75	4.60	5.20	5.80	5.60
Jun 2026	3.50	4.50	5.00	5.70	5.50
Sep 2026	3.50	4.30	4.90	5.60	5.40
Dec 2026	3.25	4.20	4.80	5.50	5.30
Mar 2027	3.25	4.10	4.80	5.50	5.30
Jun 2027	3.25	4.10	4.70	5.40	5.20
Sep 2027	3.25	4.10	4.70	5.30	5.10
Dec 2027	3.25	4.10	4.70	5.30	5.10
Mar 2028	3.25	4.10	4.70	5.30	5.10
Jun 2028	3.25	4.10	4.60	5.20	5.00
Sep 2028	3.25	4.10	4.60	5.20	5.10
Dec 2028	3.25	4.10	4.60	5.20	5.00

* 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

67. Investment returns are likely to decrease towards the latter part of 2026/27 if both CPI inflation and wage/employment data continue to 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.
68. Borrowing interest rates are also forecast to fall by the end of 2026/27 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.
69. 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

70. 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 2026 even if some rate cuts arise
71. Against this background and the risks within the economic forecast, caution will be adopted with the 2026/27 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 borrowing 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 projected to be in the next few years.
72. Any decisions would be reported to the appropriate Committee at the next available opportunity.

Treasury Management Limits on Activity

73. 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

	2026/27	2027/28	2028/29
	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 2026/27			
		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

74. 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.

75. 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

76. 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.

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

- The generation of cash savings and / or discounted cash flow savings;
- Helping to fulfil the treasury strategy;
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

78. 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.

79. 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

80. Currently the PWLB Certainty Rate is set at gilts + 80 basis points for Non-HRA borrowing. The lower Housing Revenue Account (HRA) rate started on 15 June 2023 for those authorities with a HRA. The HRA rate is PWLB Certainty Rate minus 40bps and is set to prevail until at least the end of March 2026.

81. 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 concentration 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 will 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], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for 5 years ending 31 March 2023). Subsequently a further extension to the override to 31 March 2029 was agreed by Government but only for those pooled investments made before 1st April 2024.

88. However, this Council will also pursue value for money in treasury management 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 66, includes a forecast for Bank Rate to be cut to 3.50% in quarter 2 2026.
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)	2025/26 (remainder)	3.80%
(b)	2026/27	3.40%
(c)	2027/28	3.30%
(d)	2028/29	3.30%
(e)	2029/30	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

	2025/26	2026/27	2027/28
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 MUFG Corporate Markets Treasury Limited.

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.

Economic Background provided by MUFG Corporate Markets Treasury Limited

- The first half of 2025/26 saw:
 - A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth, but picked up to 0.1% m/m in August before falling back by 0.1% m/m in September.
 - The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.6% in September.
 - CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.5%.
 - The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August (and subsequently to 3.75% in December).
 - The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70% (before falling back to 4.43% in early November).
- From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q (subsequently revised down to 0.2% q/q). Nonetheless, the 0.0% m/m change in real GDP in July, followed by a 0.1% m/m increase in August and a 0.1% decrease in September will have caused some concern. GDP growth for 2025 - 2028 is currently forecast by the Office for Budget Responsibility to be in the region of 1.5%.
- Sticking with future economic sentiment, the composite Purchasing Manager Index (PMI) for the UK increased to 52.2 in October. The manufacturing PMI output balance improved to just below 50 but it is the services sector (52.2) that continues to drive the economy forward. Nonetheless, the PMIs suggest tepid growth is the best that can be expected in the second half of 2025 and the start of 2026. Indeed, on 13 November we heard that GDP for July to September was only 0.1% q/q.
- Turning to retail sales volumes, and the 1.5% year-on-year rise in September, accelerating from a 0.7% increase in August, marked the highest gain since April. On a monthly basis, retail sales volumes rose 0.5%, defying forecasts of a 0.2% fall, following an upwardly revised 0.6% gain in August. Household spending remains surprisingly resilient, but headwinds are gathering.
- Prior to the November Budget, the public finances position looked weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the OBR. For the year to date, the £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.

- Following the 26 November Budget, the Office for Budget Responsibility (OBR) calculated the net tightening in fiscal policy as £11.7bn (0.3% of GDP) in 2029/30, smaller than the consensus forecast of £25bn. It did downgrade productivity growth by 0.3%, from 1.3% to 1.0%, but a lot of that influence was offset by upgrades to its near-term wage and inflation forecasts. Accordingly, the OBR judged the Chancellor was going to achieve her objectives with £4.2bn to spare. The Chancellor then chose to expand that headroom to £21.7bn, up from £9.9bn previously.
- Moreover, the Chancellor also chose to raise spending by a net £11.3bn in 2029/30. To pay for that and the increase in her headroom, she raised taxes by £26.1bn in 2029/30. The biggest revenue-raisers were the freeze in income tax thresholds from 2028/29 (+£7.8bn) and the rise in NICs on salary-sacrifice pension contributions (+£4.8bn). The increase in council tax for properties worth more than £2.0m will generate £0.4bn.
- The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nearly all the months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October 2024 Budget. The number of job vacancies in the three months to November 2025 stood at 729,000 (the peak was 1.3 million in spring 2022). All this suggests the labour market continues to loosen, albeit at a slow pace.
- A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.6% in September (still at that level in November). The rate for the private sector has slipped just below 4% as the year end approaches.
- CPI inflation remained at 3.8% in September but dropped to 3.2% by November. Core inflation also fell to 3.2% by November while services inflation fell to 4.4%. Nonetheless, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.
- An ever-present issue throughout recent months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the "Liberation Day" tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended June at 4.50%.

- More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England kept yields elevated over 4.70% although by late December had fallen back again to a little over 4.50%.
- The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 ended June at 8,761, around 2% higher than its value at the end of March and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed September at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors' global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings. In early November, the FTSE100 climbed to a record high just above 9,900. By late December, the index had clung on to most of those gains standing at 9,870 on 23 December.

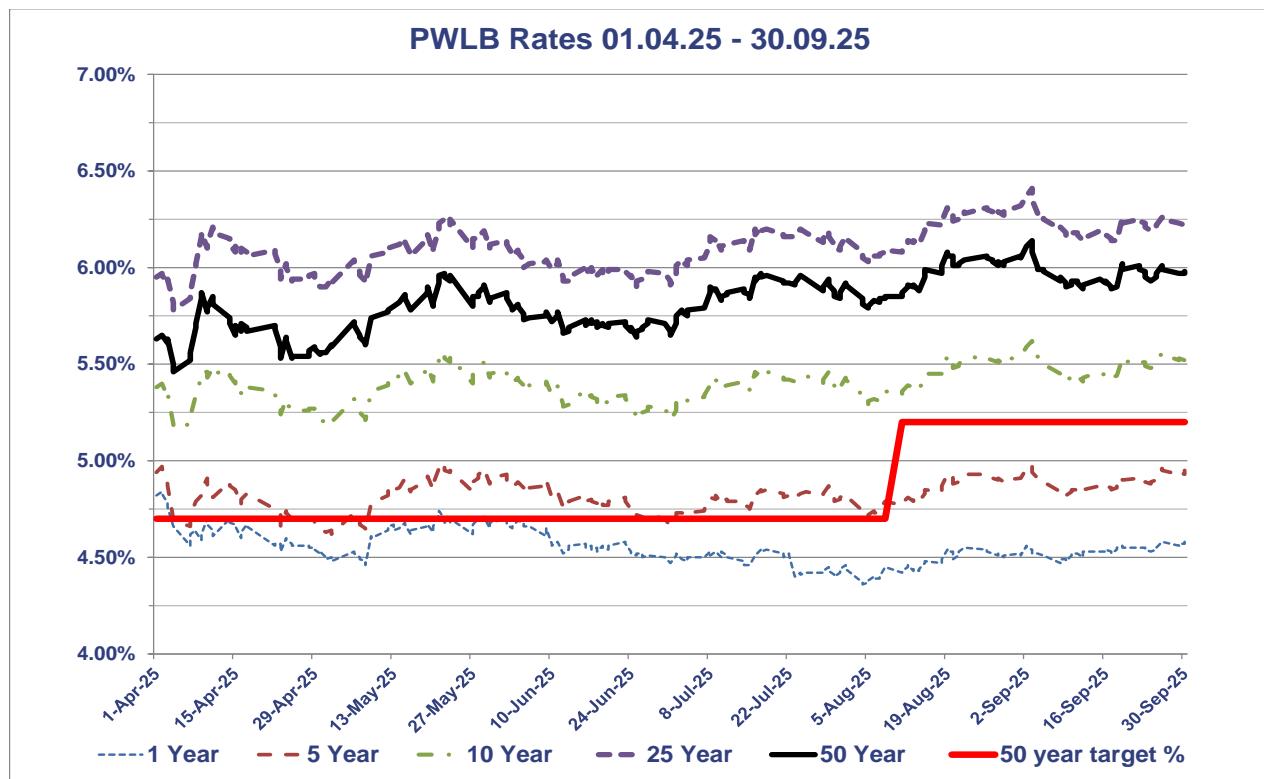
MPC meetings: 8 May, 19 June, 7 August, 18 September, 6 November, 18 December 2025

- There were six Monetary Policy Committee (MPC) meetings held between April and December. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for "signs of weak demand", "supply-side constraints" and higher "inflation expectations", mainly from rising food prices. By repeating the well-used phrase "gradual and careful", the MPC continued to suggest that rates would be reduced further.
- In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to

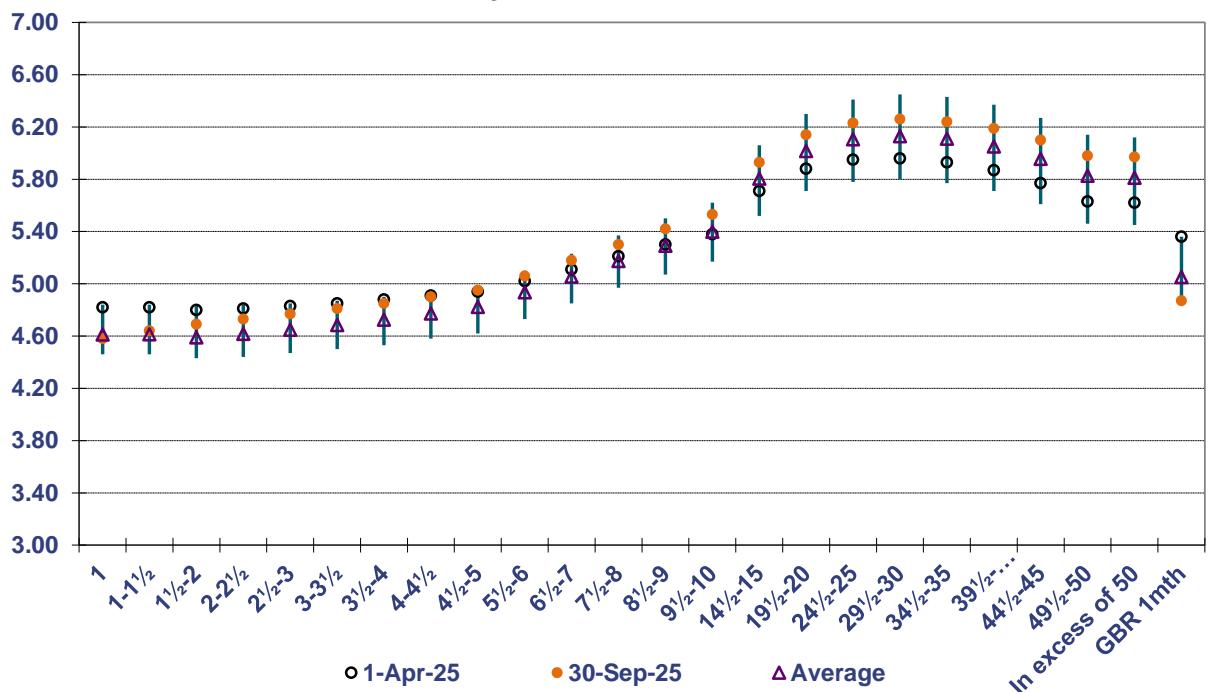
reach at least 4% later this year, the MPC was wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.

- With wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction). Moreover, the Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that “a gradual and careful” approach to rate cuts is appropriate suggested the Bank still thought interest rates will fall further.
- At the 6 November meeting, Governor Bailey was once again the deciding vote, keeping Bank Rate at 4% but hinting strongly that a further rate cut was imminent if data supported such a move. By 18 December, with November CPI inflation having fallen to 3.2%, and with Q2 GDP revised down from 0.3% q/q to only 0.2% q/q, and Q3 GDP stalling at 0.1%, the MPC voted by 5-4 to cut rates further to 3.75%. However, Governor Bailey made it clear that any further reductions would require strong supporting data, and the pace of any further decreases would be slow compared to recent months. The markets expect Bank Rate to next be cut in April.

PWLB RATES 01.04.25 – 30.09.25



PWLB Certainty Rate Variations 01.04.25 to 30.09.25



HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.25 – 30.09.25

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2025	4.82%	4.94%	5.38%	5.95%	5.63%
30/09/2025	4.58%	4.95%	5.53%	6.23%	5.98%
Low	4.36%	4.62%	5.17%	5.78%	5.46%
Low date	04/08/2025	02/05/2025	02/05/2025	04/04/2025	04/04/2025
High	4.84%	4.99%	5.62%	6.41%	6.14%
High date	02/04/2025	21/05/2025	03/09/2025	03/09/2025	03/09/2025
Average	4.55%	4.82%	5.40%	6.11%	5.83%
Spread	0.48%	0.37%	0.45%	0.63%	0.68%

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 1 year, 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 LNAV	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 MUFG Corporate Markets 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) U.S.A.

AA:

- (a) Abu Dhabi (UAE)
- (b) Finland
- (c) Qatar

AA-:

- (a) U.K.

A+:

- a) Belgium
- b) France

This page is intentionally left blank