

# **DURHAM COUNTY COUNCIL**

At a Meeting of **Audit Committee** held in **Committee Room 1 A** on **Monday 20 May 2024 at 9.30 am**

**Present:**

**Councillor A Watson (Chair)**

## **Members of the Committee:**

Councillors L Fenwick (Vice-Chair), A Hanson, P Heaviside, B Kellett, D Oliver and T Smith

### **1 Apologies for absence**

There were no appologies for absence.

### **2 Minutes**

The minutes of the meeting held on 29 February 2024 were agreed as a correct record and signed by the Chair.

### **3 Declarations of interest**

There were no declarations of interest.

### **4 Climate Emergency Response Plan**

The Committee received a presentation from the Head of Environment that provided an overview of the Climate Emergency Response Plan (CERP) that had been requested by members to understand the Council's aspirations in lowering their carbon omissions and the risks and issues associated with that commitment (for copy see file of minutes).

The Head of Environment gave a detailed presentation that focused on the key strategic issues and risks and did not focus on the individual projects that the council had delivered or planned to deliver in relation to climate change. He noted that evidence showed that average temperatures were getting hotter in Durham but climate change was not just about rising temperatures but also about severe weather events that had an impact on the environment, the eco system, biodiversity, public health, the infrastructure and the economy.

It was highlighted that the only statutory target set for the UK was to achieve net zero by 2050. Durham County Council had two targets - one for the council itself that had been agreed by Members in 2008-09, which was to reduce the council's carbon emissions by 60% by 2030. This had been exceeded as the council had already achieved 61% therefore the stretched target was increased to deliver a reduction of 80% by 2030.

The Head of Environment stated that the council's activity in terms of carbon emissions for the county was only 3% of the overall carbon emissions in County Durham, with households, road users and businesses accounting for the remaining 97%, which was not in the council's direct control.

The Council's second target was to work with partners to bring about net zero emissions by 2045. At present, performance sat at 54% but this was not just down to the council. It was the responsibility of everyone who lived and worked in the County to contribute towards achieving the target. He explained that the measurement of emissions was a complex calculation – including a number of scopes. Scope one measured all emissions from the activities as a council i.e. driving vans, the second scope looked at the use of gas boilers in heating buildings that used fossil fuel and the third scope looked at emissions from the supply chain in waste activities or contracts the council had with other organisations. The main challenge was with transport.

The Head of Environment advised that the council were moving away from gas boilers to air source heat pumps, that it had introduced LED streetlights as part of the SLERP (Street Lighting Energy Replacement Programme) that had changed the provision of light to save money so that the investment would pay for itself. The Morrison Busty depot had been upgraded to low carbon that ran the winter maintenance programme, waste recycling facilities, a solar farm with battery storage with a fleet of electric vehicles to wean off fossil fuels. There was a programme to commercialise electric vehicle charging points to bring money back into the council. There were tree planting and peat restoration programmes.

All the projects delivered by Durham County Council created opportunities to access grant funds both regionally and nationally as the council did not have the resources to tackle climate change without leveraging additional external grant. It was highlighted that the achievement of the targets was dependent on technology improvements to address climate change measures. Achieving Net Zero was expensive and the lack of funds prevented the council from making necessary adaptations but local budgets were deployed on projects to invest to save and on capitalised maintenance when they improved buildings.

It was highlighted that the Committee for Climate Change monitored the government's comprehensive report but there was a lack of urgency. There was a need to stay firm on commitment as this would not go away. Local government finances were tight but there was a need to maintain focus. He noted that a report was to be presented to Cabinet in July 2024 to incorporate the actions set out in CERP3 to reduce risk and meet targets.

Councillor A Watson asked if planning policy was featured within the CERP.

The Head of Environment responded that the CERP impacted across the board for the council and that included planning policy that encouraged alternative sources to heat buildings to move away from using fossil fuels. The local planning authority could only do so much within its existing powers, with legislative changes required at a national level.

Councillor A Watson acknowledged that it was a huge agenda.

Councillor T Smith mentioned that she had owned an electric car for the last five years and Durham County Council had done a lot of work around electric vehicle charging points in public car parks but there was a need to do more for people to charge their cars at home. She had contacted Karbon homes to see what their policy was as there were also safety issues when cables ran across the pavement. She queried if developers could add more points when estates were built going forward.

The Net Zero Manager responded that new developments were required to install electric vehicle charging points as part of the latest building regulations. This was demonstrated in the new development at Sherburn Road in Durham. The council had carried out work with housing providers around electric vehicle charging points but it was complicated when it came to the legal requirements over land ownership. It was straight forward to install them if land belonged to the council but it was more complex with lease agreements if land belonged to someone else. He advised that the council was part of a Kerbo scheme that had been piloted with 20 homes in Durham. The scheme cut grooves into pavements big enough to site charging cables to ensure they were flush with the ground to stop them being trip hazards. The scheme had proved very successful, residents were full of praise for the council and the concept had been featured on Dragons Den.

The Head of Environment stated that charging electric vehicles at home was a challenge but the Kerbo pilot was a good scheme that needed to be scaled up.

Councillor T Smith declared that there should be boundaries for land owners to take responsibility to work with builders of new properties to ensure the need for electric vehicle charging points was met.

Councillor P Heaviside noted that he had requested two electric vehicle charging points to be installed at a community centre and a car park in his division but the community centre was refused as it was deemed too expensive and the car park was still just a box. He queried how many would be delivered in the next round of funding as he had been told that there had only been 60 out of 200 delivered and questioned whether the target should be lowered.

The Net Zero Manager confirmed that 150 had been delivered and queried whether the information that Councillor P Heaviside had been supplied with was regarding a different scheme. He advised that in the next round of funding they aimed to deliver 250 but there would be issues with National Power Grid (NPG) to get the charging points connected to the grid as it cost between £15,000 to £20,000 to connect to the grid. The council had a good working relationship with NPG with council staff being members of their Advisory Board that looked at figures and data to improve the infrastructure.

P Darby noted that the national policy would drive subsidy to make connections as an incentive for the government to do more.

Councillor B Kellett asked why measurements of carbon dioxide were not readily published and why they had increased.

The Net Zero Manager responded that carbon dioxide was measured in parts per million and there was a detailed scientific method on how they did that. Graphs indicated that carbon dioxide had increased and it now measured 400 parts per million as opposed to 200 parts per million in previous years. Measurements had never been higher. He confirmed that data was available on the amount of carbon dioxide that was in the atmosphere.

The Head of Environment stated that there were many different gases measured not just carbon dioxide. Methane was an important gas to monitor that was emitted from all land fill sites. Methane was 34% worse than carbon dioxide. A scheme at the Coxhoe Landfill site was highlighted where the gas was extracted and burned to produce electric that could be fed back into the national grid, generating revenue.

Councillor B Kellett referred to the graphs in the presentation that indicated that climate change was getting worse with lots of peaks and troughs. He thought that a straight-line trend would highlight a simpler version of the data.

The Head of Environment confirmed that the presentation had included the straight-line graph also and directed Cllr Kellett to the appropriate slide. He noted that the information came from Durham University and that the graphs plotted the average and another that gave a simpler version. He noted that both were from two different sources that influenced the different graphs.

Mr C Robinson asked what the key risks were with technology and what technology was being referred to.

The Head of Environment responded that technology was in relation to electric vehicles. He confirmed that the technology was good in smaller vehicles but not so good in the bigger refuse vehicles as batteries needed to be stronger and last longer but at affordable prices. The council had tested a bigger electric refuse vehicle but the technology and price were not reliable so there was a need to wait until the technology was dependable at the right price. It was proposed that in two years time the council would need 31 food waste vehicles therefore technology was being monitored.

The Net Zero Manager noted that the biggest issue affecting the country was the change required to move to alternative methods of heating away from a reliance on gas boilers. This presented a huge national challenge. Air source heat pumps were now a cheap technology that could be used as an alternative and they were proven technology. Gateshead Council were leading the way with a District Energy Scheme that used geothermal energy sources that created a great opportunity to harness the temperature of the earth that was decarbonised to be utilised for heat and electricity.

Mr C Robinson was unclear on what risks were involved in meeting the climate change targets.

The Head of Environment replied to Mr C Robinson that as a Council there were two targets set one for the council itself that it could control and one that addressed the county that was out of the council's control. The risk was more weighted towards the council in its role as partnership influencer and technology was geared to both. He added that the council had operations controlled and had influence over CERP3 (Climate Emergency Response Plan 3) that highlighted areas to ask the Government's Climate Change committee to highlight things that needed to be rectified by the government.

Mr C Robinson asked if the new Mayor of the North East Combined Authority (NECA) had influence over climate change targets.

The Head of Environment confirmed that the new Mayor would have influence in two ways one that would bring responsibility for local authorities closer together. He advised that the Net Zero Manager sat on the net zero group that shared information and best practise. Secondly all investment plans from the environment and economy portfolio candidates wanted a greener region. If investment plans showed fruition they would provide influence to all policies to aid support on transport.

Mr I Rudd was interested in the case study on the pooled resources at Morrison Busty but was sceptical that someone would want to invest to save for 16 years. He did not think this would be viable even if the desire was to be green there was still a need for value for money.

The Head of Environment advised that the invest to save schemes were over long stretches of time but there were more hoops to go through as there were no discounts and risk assessments were required.

P Darby stated that there were longer terms for invest to save. It was a challenge to invest to save over 16 years as you needed to convince someone to invest for that length of time.

The Net Zero Manager added that the council had invest to save deals from 2013 in building distribution heating systems where developers looked for 40 year concessions and pay back in 20-25 years which was standard for decarbonisation activities.

**Resolved:**

That the presentation be noted.

**5 Health, Safety and Wellbeing Performance Report Quarter Four 2023/24**

The Committee received a joint report of the Corporate Director of Regeneration, Economy and Growth and the Corporate Director of Resources that provided an update on the Council's Health, Safety and Wellbeing (HSW) performance for quarter four 2023/24 (for copy see file of minutes).

K Lough highlighted the key areas of the quarter 4 report that included a 9% reduction of the number of accidents since the last quarter. There had been two fires, one at a waste transfer site and one at a children's extra care unit. There had been 75 risk audits carried out which was a healthy number but was still a lower sign off rate than there should be. There were two enforcement actions taken with one with a contractor at a demolition site regarding asbestos and one at a school regarding asbestos management.

The council had been given a clean bill of health following the HSE inspections with no actions required. Work was ongoing with Head Teachers, Governors and Business Managers within Academies that were not under the council's control regarding health and safety training to reinforce what schools needed to do in relation to asbestos. There was an ongoing investigation at the demolition site of Kelly's Bakery where an uncontrolled wall fell onto a pedestrian pathway due to Storm Isha. Radon Gas results had been returned with only 3 buildings that required action. Engine controlled pumps had been installed to bring the buildings back under the threshold. Inspectors provided assurances on the delivery programme and had asked the council to share DCCs working practises with other local authorities that had not made as good a progress.

Councillor A Hanson asked if the radon gas management programme only extended to council owned buildings or other buildings as a local charity were perplexed when a council officer had asked to put a detector in their building even though it was not DCC owned.

K Lough advised that the scheme only included council owned buildings and if the charity did not have a lease with the council, he was unsure why permission was asked to place the detector in the building. He agreed to investigate further.

Mr C Robinson referred to the slipping accidents that had occurred at Durham bus station and asked how the flooring had passed building regulations inspections.

K Lough acknowledged that the flooring issue had only come to light after the bus station had opened. The problem with the flooring had not been obvious and would not have been picked up in any testing that was carried out before the site opened.

Mr C Robinson asked if there would be changes to the regular testing carried out before new buildings were opened like Milburngate to ensure no further episodes occurred.

K Lough confirmed that investigations into the accidents would lead to a review of testing before a site was opened. The incident was rare and had not seen anything like it before.

Mr I Rudd queried why there had been an increase in people named on the violent persons register.

K Lough acknowledged that there had been improved reporting that encouraged employees to report issues. There had also been an increase in partnership working with police and probation that provided more intelligence from partner agencies that had increased the numbers on the register.

**Resolved:**

That the report be noted.

**6 Annual Governance Statement for the year ended 31 March 2023: Actions Update**

The Committee received a report of the Corporate Director of Resources that provided an update on the progress made in relation to the actions arising from the Council's Annual Governance Statement (AGS) for the year ended 31 March 2023 that built on the update that was provided to Audit Committee on 27 November 2023 (for copy see file of minutes).

**Resolved:**

That the report be noted.

**7 Audit Strategy Memorandum - Durham County Council**

The Committee received the Audit Strategy Memorandum of the External Auditor relating to the Durham County Council (for copy see file of minutes).

M Outterside, Mazars highlighted the key areas of the Audit Strategy Memorandum for Durham County Council. He stated that there were no changes from last year.

Mr C Robinson asked if there had been any substantial change in the scope of additional work for officers.

M Outterside, Mazars replied that the scope of work had changed due to the regulations set by the PSA but not by Mazars.

Mr I Rudd asked if the approach to the market was different or if there were any areas of concern.

M Outterside, Mazars replied that there were no significant changes since last year with the evaluation to Durham County Council (DCC) audit strategy and the pension strategy. Both strategies were similar to last year with the same team working on the audit that had no surprises in store.



Mr F Barnish noted that the fees had increased and asked if DCC were happy about them.

P Darby replied that the fees had increased across the public sector. He advised that the council received grant money to pay for some of the fees as not all the fees came out of the council's budget. It was key to pay auditors more to encourage more people to apply for the roles.

P Darby noted that the increased fees had been on the back the Redmond Review to create more interest in the PSA to encourage more people back into the market.

**Resolved:**

That the report be noted.

**8 Audit Strategy Memorandum - Durham County Council Pension Fund**

The Committee received the Audit Strategy Memorandum of the External Auditor relating to the Durham County Council Pension Fund (for copy see file of minutes).

**Resolved:**

That the report be noted.

**9 Internal Audit Progress Update Report Period Ended 31 March 2024**

The Committee received a report of the Corporate Director of Resources that provided an update on the work that was carried out by Internal Audit during the period 1 April 2023 to 31 March 2024, as part of the Internal Audit Plan for 2023/24 (for copy see file of minutes).

T Henderson gave an overview of the report and noted that there was a typo in paragraph 17 and stated that the year should read 2023/24 not 2023/23.

Mr C Robinson asked what 'Debtors – Knockdown Damage Process' referred to in the report.

P Darby explained that this was debt that arose from when street furniture, street signs or traffic bollards were damaged in traffic accidents and the process that had to be followed in relation to this.

**Resolved:**

- i) That the amendments made to the Internal Audit Plan during quarter four be noted.
- ii) That the work undertaken by Internal Audit during the period ending 31 March 2024 be noted.
- iii) That the performance of the Internal Audit Service during the period be noted.
- iv) That the progress made by service managers in responding to the work of Internal Audit be noted.

**10 Internal Audit Charter, Strategy and Plan 2024/25**

The Committee received a report of the Corporate Director of Resources that submitted the Internal Audit Strategy, Charter and Internal Audit Plan for the period 1 April 2024 to 31 March 2025, which were attached as Appendices 2, 3, 4 and 5 for approval (for copy see file of minutes).

**Resolved:**

- i) That the Internal Audit Strategy in Appendix 2 be approved.
- ii) That the Internal Audit Charter in Appendix 3 be approved.
- iii) That the proposed Annual Internal Audit Plan for the period of 1 April 2024 to 31 March 2025, as detailed in Appendix 4 be approved.
- iv) That the revised version of the Internal Audit Strategy and Internal Audit Charter would be compiled and presented to Audit Committee later in the year be noted.

**11 Appointment of Co-opted Independent Members to the Audit Committee**

The Committee received a report of the Corporate Director of Resources that provided an update on the recruitment of co-opted Independent Members to the Audit Committee. It sought agreement to increase the Audit Committee Co-opted Audit membership from two to three members and to make recommendations to Council for the appointment to these roles for a three year period from 1 May 2024 (for copy see file of minutes).

Mr I Rudd thanked the committee for having the confidence in both him and Mr C Robinson to allow them to continue in the role as co-opted independent members to the audit committee for a few more years.

**Resolved:**

- i) That the recruitment process undertaken for co-opted Independent Members be noted.
- ii) That the Audit Committee Co-opted Independent membership be increased from two to three members be agreed.
- iii) That the reappointment of Clive Robinson and Ian Rudd and also to appoint Francis Barnish as a new co- opted Independent Member to the Audit Committee with effect from 1 May 2024 for a fixed term of three years be recommended to Full Council on 22 May 2024.

## **12 Review of the Audit Committee Terms of Reference and Self Assessment Effectiveness**

The Committee received a report of the Chief Internal Auditor and Corporate Fraud Manager that presented findings of the evaluation of the self-effectiveness of the Audit Committee that was carried out during the Audit Committee Workshop session on 13 February 2024, as prescribed by CIPFA in their document Audit Committees: Practical Guidance for Local Authorities and Police 2022. The report included the amended Terms of Reference for the Audit Committee which would be presented to Full Council for formal review and approval in May 2024 (for copy see file of minutes).

P Darby stated that that there was a need to strengthen the scrutiny of the Treasury Management Outturn Report. It was felt that instead of training 126 members to carry out this function at the council meetings, it had been proposed to include the function in the terms of reference for the Audit Committee who would be charged to provide an oversight of the report before it was submitted to full council.

Mr I Rudd asked if the Audit team still worked with third parties like New College Durham for auditing purposes and if there were sufficient resources to do this.

T Henderson confirmed that the service level agreement (SLA) with New College Durham would be terminated at the end of August 2024 following resourcing challenges, which was in addition to the decision making previously taken to terminate those SLAs previously in place with town and parish councils.

She advised that the only external work remaining for the audit team to continue to deliver would be for Durham Constabulary, Durham and Darlington Fire and Rescue, Durham Crematorium and Mountsett Crematorium and the Pension Fund, as the income generated from these external clients finances the staffing budget.

**Resolved:**

- i) That the completed self-assessment and evaluation of good practice for Audit Committees in Local Authorities set out in Appendix 2 be noted.
- ii) That the changes to the Audit Committee's Terms of Reference incorporating CIPFA's model Terms of Reference defined in the Practical Guidance for Local Authorities 2022 set out at Appendix 3, which had been incorporated into the Part 3A of council's revised Constitution and would be subject to review and approval by Full Council on 22 May 2024 be noted.
- iii) That the training plan for Audit Committee Members for the Municipal Year 2024/25 set out at Appendix 4 be noted.
- iv) That Members would attend a training session on 31 July 2024 to address the training needs identified be agreed.
- v) That the outcome of the self-assessment would form the basis of the future annual reporting from Audit Committee, compiled by the Chair of Audit Committee, supported by the Chief Internal Auditor, which would be prepared for presentation to Full Council that demonstrated how the Audit Committee met its Terms of Reference and providing a summary of the work of the committee during the year be noted.
- vi) That free and unfettered access be provided to the Audit Committee Chair for the Head of Internal Audit, including the opportunity for a private meeting with the Committee be agreed. That this would take place ten minutes before the start of each committee meeting

### **13 Treasury Management Update and Training Session**

The Committee received a presentation from the Principal Accountant - Commercial Capital and Treasury that provided an update on Treasury Management that managed the council's borrowing, investments and cash flows. It highlighted the training that would be delivered to Members in relation to their new scrutiny role (for copy see file of minutes).

The Principal Accountant – Commercial Capital and Treasury gave a detailed presentation that gave an update on the consultations that were launched by CIPFA on its Treasury Management Code of Practice and its Prudential Code for Capital Financing that defined a framework that the Council were required to comply with in relation to borrowing and investing. Within the framework there was a need for transparency, improve capital affordability and tighten up regulations that scrutiny by the Audit Committee would ensure. She had developed an e-learning module for members to help them understand the new role of the committee. The model was heavy going but relevant that looked at the council's cash flow, lending and borrowing in a controlled framework to help to achieve the business objective of consistent value for money.

The Principal Accountant – Commercial Capital and Treasury noted that cash flow was monitored on day to day receipts for long term forecast to make decisions on investing funds in the short term to ensure money was available to finance capital projects. The investment objective was to look at risk and reward and prioritise security and liquidity before yield. She advised that borrowing was in line with the code with costs minimised so the portfolio did not expose the council to risk on maturing. She stated that work was ongoing with neighbouring authorities to bench marking performance against similar sized authorities for net revenue streams and ensure that the code of practice indicators performed in line with the approved strategy. The Audit Committee would be looked upon as having a critical friend approach to improve and prevent mistakes. It was proposed that all members would complete the e-learning module by 20 June 2024 to receive the first Treasury Management report on 28 June 2024 before it was submitted to full council on 17 July 2024.

P Darby advised that the Treasury Management Audit Review would still take place on an annual basis. The Chief Internal Auditor and Corporate Fraud Manager would continue to do same checks on a day to day basis and produce any other information for the committee to receive before the scrutiny report came to committee. The Head of Corporate Finance and Commercial Services and the Principal Accountant – Commercial Capital and Treasury met on a monthly basis and the Head of Corporate Finance and Commercial Services and the Corporate Director of Resources met on a daily basis.

Comments on the report from the Audit committee would be submitted to full council. The scrutiny role would be monitored to see how it went.

Mr I Rudd acknowledged that there was a lot that went on behind the scenes and the Audit committee would only become aware of things if they went wrong like if the Council ran out of money. He asked how the committee could measure how good things were.

The Principal Accountant – Commercial Capital and Treasury informed the committee that the training module would include indicators on how to measure how good things were. She advised that there were already limitations set on what Officers could not do when managing funds so the Council did not go over its budget. In general income generated looked at security and liquidity before it considered yield. Cash was managed efficiently each day and the report would report indicate the targets set to ensure they were not exceeded.

P Darby added that the committee would scrutinise the decisions on when to borrow and when to delay borrowing. There would be a raft of information in the treasury management training to advise on capital commitments. The council operated a balanced budget that meant that cash raised would meet cash expenditure functions to ensure that cash flow was adequately planned with surplus monies being invested to arrange the funding of the councils capital programme. This supported the provision of Council services and delivery of the council plan objectives. The council had adopted the latest CIPFA code of practice on treasure management to ensure there was adequate monitoring of the councils capital expenditure plans.

Councillor B Kellett shared from his past experience working in the treasury department that the council held short term monies overnight at the Bank of England. He had been aware of when BCCI had been a reliable company to invest in but it had crashed unexpectedly. He queried how the council invested its money in the short term and what risks the committee would need to look at.

P Darby responded that cash flows were carefully monitored and invested. He stated that a similar thing to BCCI had happened with the Icelandic banks in 2018. Nothing was certain and it was important that the council followed the advice of its advisors and monitored any changes in credit worthiness of institutions. He added that the council limited exposure in individual counterparties and only used those that were of the best credit worthiness. Money was invested in long term and short term ways as there was always a need for money to be available on deposit.

The Principal Accountant – Commercial Capital and Treasury added that organisations the council invested in were reviewed on a weekly basis and targets set on how much could be invested.

P Darby gave a good example of work that was ongoing with the six local authorities under the new NECA arrangements to look at intra local authority short term lending and borrowing. This would be at market rates but could avoid / save authorities the arrangement fees.

Mr C Robinson queried if the audit committee could review and challenge the Treasury Management Strategy and Policies, querying whether the Committee had responsibility for setting the policy or whether this was set by full council.

P Darby acknowledged that the strategy and policy needed to be adopted by the council, as part of the budget setting. The Audit Committee would be engaged in that process going forward to ensure there was appropriate scrutiny. The committee would provide a greater oversight of the detail.

P Darby confirmed that recommendations would be presented to full council but the decisions would rest with council.

**Resolved:**

- i) That Members receive online training to be completed by 20 June 2024 be agreed.
- ii) That Audit Committee receive the Treasury Management Outturn Report for consideration at its meeting on the 28 June 2024 be agreed.

**14 Exclusion of the Public**

**Resolved:**

That under section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 1 of Part 1 of Schedule 12A of the Act.

**15 Internal Audit Progress Report Period Ended 31 March 2024**

The Committee received a report of the Corporate Director of Resources that presented Appendix 6 and Appendix 7 referenced in the Internal Audit Progress report in Part A of the agenda (for copy see file of minutes).

**Resolved:**

- i) The Appendix 6 be noted.
- ii) That Appendix 7 be noted.