

Audit Committee Agenda



**10.00 am Thursday, 26 July 2018
Committee Room No. 2, 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 the last meeting of this Committee held on 28 March 2018 (Pages 1 - 6)
4. Update on Children's Services Improvements and Outcomes of Single Inspection Framework Re-Inspection –
Report of Director of Children and Adult Services
(Pages 7 - 48)
5. Annual Review of Significant Partnerships 2017-18 –
Report of Managing Director
(Pages 49 - 52)
6. Audit of Accounts –
Report of Managing Director
(Pages 53 - 190)
7. Treasury Management Annual Report and Outturn Prudential Indicators 2017/18
–
Report of Managing Director
(Pages 191 - 214)
8. Managers' Assurance Statements –
Report of Managing Director
(Pages 215 - 218)
9. Annual Risk Management Update Report 2018/19 –
Report of Managing Director

(Pages 219 - 238)

10. Audit Services Annual Audit Plan 2017/18 - Annual Report –
Report of Audit and Risk Manager
(Pages 239 - 258)
11. Audit Services Annual Audit Plan 2018/19 - Progress Report –
Report of Audit and Risk Manager
(Pages 259 - 272)
12. Annual Review of Internal Audit Effectiveness –
Report of Audit and Risk Manager
(Pages 273 - 280)
13. Annual Governance Statement –
Report of Managing Director
(Pages 281 - 316)
14. 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
15. Questions



Luke Swinhoe
Assistant Director Law and Governance

Date Not Specified

Town Hall
Darlington.

Membership

Councillors Baldwin, Crudass and McEwan

If you need this information in a different language or format or you have any other queries on this agenda please contact Shirley Burton, Democratic Manager, Resources Group, during normal office hours 8.30 a.m. to 4.45 p.m. Mondays to Thursdays and 8.30 a.m. to 4.15 p.m. Fridays E-Mail : shirley.burton@darlington.gov.uk or telephone 01325 405998

AUDIT COMMITTEE

28th March, 2018

PRESENT - Councillor Baldwin (in the Chair); Councillors Crudass and McEwan. (3)

OFFICERS – Elizabeth Davison, Assistant Director, Finance, Human Resources and Systems, Ian Miles, Assistant Director Xentrall Shared Services, Luke Swinhoe, Assistant Director, Law and Governance, Jane Kochanowski, Assistant Director, Children’s Services, Peter Carrick, Central Finance Manager, Anthony Sandys, Head of Housing and Revenues, Lee Downey, Complaints and Information Governance Manager and Andrew Barber, Audit and Risk Manager, Stockton Borough Council.

ALSO IN ATTENDANCE – Nicola Wright and Stuart Kenny, Ernst Young LLP

A28. DECLARATIONS OF INTEREST – There were no declarations of interest reported at the meeting.

A29. MINUTES - Submitted – The Minutes (previously circulated) of meetings of this Audit Committee held on 20th December, 2017 and 31st January, 2018

RESOLVED – That the Minutes be approved as correct records.

A30. OFSTED INSPECTION OF CHILDREN’S SERVICES – The Assistant Director, Children’s Services gave a verbal update on the recent Ofsted inspection of Children’s Services which had taken place between 26th February and 22nd March, 2018.

It was reported that although the final report of the Inspector’s would not be published until 21st May, 2018, there had been some strong positive messages highlighted during the course of the Inspection.

There were also a number of areas highlighted where improvement was still required, however, these were areas which Management were aware of and would continue to be focussed on, together with the need to sustain the good practice which had been achieved.

RESOLVED – That the report be received and that this Audit Committee is reassured by the initial positive messages which had been highlighted.

A31. ICT STRATEGY – IMPLEMENTATION PROGRESS – The Assistant Director, Xentrall Shared Services submitted a report (previously circulated) on the progress in relation to the implementation of the ICT Strategy.

It was reported that the Strategy focussed on three strategic priorities which included ICT Governance and Service Development, ICT Strategic Architecture and Council Service Development and Transformation and details of the progress against the key activities within each of the priorities were included in the submitted report.

RESOLVED – That the progress on the implementation of the ICT Strategy be noted.

A32. INFORMATION GOVERNANCE WORK PROGRAMME – PROGRESS REPORT

– The Director of Neighbourhood Services and Resources submitted a report (previously circulated) on the progress and planned developments of the Information Governance Programme.

The submitted report stated that information governance was an ‘above the line’ risk on the corporate risk register and outlined progress on the implementation of the programme, which would provide the assurance required and reduce the Council’s information risks to an acceptable level.

It was reported that the areas of highest priority for the information governance programme was the delivery of the compliance programme for the General Data Protection Regulations (GDPR) and connection to the Health and Social Care Network (HSCN).

Particular reference was made to the position, as at mid-February 2018 in relation to the completion of the mandatory on-line information governance courses, and Members expressed some concern about the percentage completion of those courses across some service areas.

RESOLVED – (a) That the progress on the implementation of the Information Governance Programme be noted.

(b) That the Assistant Director, Finance, Human Resources and Systems, be requested to highlight the concern of Members at the completion rates of the on-line mandatory training courses with all other Assistant Directors with a view to the completion rate being increased.

A33. REVENUES AND BENEFITS ANNUAL COUNTER FRAUD ACTIVITY REPORT

2017/18 – the Director of Neighbourhood Services and Resources submitted a report (previously circulated) informing Members of the work of Revenues and Benefits in respect of counter fraud activity for the financial year 2017/18.

It was reported that although the Department for Works and Pensions had overall responsibility for the scope and structure of the Housing Benefit Scheme, the Council had day-to-day responsibility for its administration. In addition, the Council was also responsible for the Council Tax support, Council Tax and Business Rates discount and exemption counter fraud activities and the submitted report outlined the work undertaken in relation to those areas.

The Revenues and Benefits service continued to maintain its commitment to counter fraud activity across a range of benefits, discounts and exemptions and that this was illustrated by the continued level of successful inspections and reviews undertaken in 2017/18.

RESOLVED – That the Revenues and Benefits Counter Fraud Activity Report for 2017/18 be noted.

A34. ETHICAL GOVERNANCE AND MEMBER STANDARDS – UPDATE

– The Director of Neighbourhood Services and Resources submitted a report (previously

circulated) updating Members on the issues relevant to Member standards and ethical governance.

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

It was reported that there were no particular issues of concern that had been identified from reviewing the data.

The Assistant Director, Law and Governance also sought Members' views on a proposed amendment to the Code of Conduct for Members, which would involve a requirement for them to notify the Monitoring Officer of gift and hospitality received, with an estimated value of £25 or more, were sought prior to a decision thereon by full Council. If approved, this amendment would bring the Members' Code in line with the Employees' Code.

The submitted report also outlined a number of recommendations following a review by the Committee on Standards in Public Life in relation to intimidation of Parliamentary candidates, some of which related to local elections and candidates and to a current consultation which was being undertaken into local government ethical standards which was due to close on 18 May, 2018.

RESOLVED – (a) That the report be noted and that Council be advised that this Committee supports the proposed amendment to the Code of Conduct for Members, as outlined in the submitted report.

A35. ANNUAL GRANTS CERTIFICATION REPORT 2016/17 – The Director of Neighbourhood Services and Resources submitted a report (previously circulated) together with a report (also previously circulated) produced by Ernst and Young, which summarised the high level results of its grant certification testing.

It was reported that the external audit work undertaken had identified that the claim certified, worth a net total of £37,687,645, required a qualification letter, although no amendment was made to the claim.

In addition, it was reported that Ernst Young had also audited two claims which fell outside of the Public Sector Audit Appointments arrangements, in relation to the Teacher' Pension and the Housing Pooling return, and that no significant issues from either of those claims had been identified.

RESOLVED – That the report be noted.

A36. EXTERNAL AUDIT ANNUAL AUDIT PLAN 2017/18 – The Director of Neighbourhood Services and Resources submitted a report (previously circulated) together with a copy of the 2017/18 External Audit Plan (also previously circulated) which had been prepared by the Council' appointed external auditors Ernst and Young (EY).

Nicola Wright from EY advised Members of the content of the Plan and, in doing so, highlighted the audit risks and areas of focus, the levels of materiality and the final accounts early close down process with effect from 2017/18 (Minute A37 below refers).

RESOLVED – That the External Audit Plan for 2017/18 be noted.

A37. FINAL ACCOUNTS EARLY CLOSEDOWN PROCESS 2017/18 – The Director of Neighbourhood Services submitted a report (previously circulated) updating Members on the Final Accounts Closedown timetable for 2017/18 and the accounting policies to be applied in preparation of the Statement of Accounts.

It was reported that the statutory deadlines for local authority accounts had been brought forward from 2017/18 onwards and the submitted report detailed the revised requirements together with the action taken by the Authority to ensure the revised requirement and the timetable would be met.

Reference was also made to the accounting policies, defined within the Code of Practice, which had to be applied by an authority in preparing and presenting final statement and to the role of this Committee in specifically considering whether they had been followed.

RESOLVED – (a) That the progress on the implementation of the Final Accounts early closedown process be noted.

(b) That the accounting policies be noted and approved for use in the preparation of the 2017/18 financial statements.

A38. INTERNAL AUDIT EXTERNAL PEER REVIEW – The Audit and Risk Manager submitted a report (previously circulated) advising Members of the requirement to have an external assessment of the Internal Audit service and outlining proposals for the scope of that review.

It was reported that, as a requirement of the Public Sector Internal Audit Standards, an external peer review of the audit service must be undertaken at least once every five years and, as Darlington's review, along with each of the other Tees Valley authorities was due in 2018, it was proposed to put reciprocal arrangements in place with those other authorities for reviewing each other.

Discussion ensued on the format of the review which, it was proposed would be via self-assessment, with external validation by a peer from another authority.

RESOLVED – That the proposal for the external assessment to be undertaken by a peer from a neighbouring authority, using the application note checklist and in the form of an external self-assessment validation, be approved.

A39. AUDIT SERVICES ANNUAL AUDIT PLAN 2017/18 – The Audit and Risk Manager submitted a report (previously circulated) updating Members on the progress against the 2017/18 Annual Audit Plan in accordance with Audit Services' roles and terms of reference.

The submitted report outlined the progress to date on audit assignment work, consultancy/contingency activity and performance indicators and it was reported that

the first part of the year had been focussed on ensuring the new team and systems were embedded, with audit assignments being undertaken towards the second half of the year.

It was reported that, in view of the reduced staffing levels within the section, a number of audits had been identified as a low risk and were unlikely to be complete.

RESOLVED – That the progress report against the 2017/18 Annual Audit Plan and the proposed changes to the plan be noted.

A40. AUDIT SERVICES – AUDIT CHARTER, ANNUAL AUDIT PLAN 2018/19 AND QUALITY ASSURANCE AND IMPROVEMENT PROCESS – The Audit and Risk Manager submitted a report (previously circulated) presenting the Audit Services' Audit Plan for 2018/19, associated performance indicators and Audit Charter (previously circulated).

It was reported that the Charter (also previously circulated) had been produced which outlined how the future service would meet the statutory requirements and how the Audit Plan would be developed and that a Strategic Plan and a Quality Assurance and Improvement Plan (QAIP) (also previously circulated) had also been developed.

RESOLVED - (a) That the Internal Audit Charter, as appended to the submitted report, and the right of access conferred therein, be approved.

(b) That the proposed Audit Plan for 2018/19, as appended to the submitted report, be approved.

(c) That the indicative strategic Audit Plan for 2010-2023 and the estimated resources available to deliver that Plan be noted.

(d) That the Quality Assurance and Improvement Programme (QAIP), as appended to the submitted report, which will be used to monitor the service throughout the year, be noted.

A41. ANTI-FRAUD AND CORRUPTION STRATEGY 2018/19 – The Audit and Risk Manager submitted a report (previously circulated) advising Members of the Council's anti-fraud and corruption arrangements for the period 2018/19.

It was reported that the Anti-Fraud and Corruption Strategy which had been developed in line with CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption and addressed the five key themes within that Code, had been endorsed by senior management with a foreword provided by the Director of Neighbourhood Services and Resources as the responsible finance officer and the Chair of this Committee.

RESOLVED – That the Anti-Fraud and Corruption Strategy, as appended to the submitted report, be approved.

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UPDATE ON CHILDREN'S SERVICES IMPROVEMENTS AND OUTCOMES OF SINGLE INSPECTION FRAMEWORK RE-INSPECTION

SUMMARY REPORT

Purpose of the Report

1. The purpose of this report is to provide an update to Audit Committee on the outcome of the Single Inspection Framework (SIF) re-inspection conducted during February and March 2018.

Summary

2. Following publication of the SIF report, on 1 September 2015, which found Children's Services in Darlington to be inadequate, Cabinet and Audit Committee have received regular progress reports regarding the improvement journey.
3. Ofsted subsequently carried out a full four week SIF re-inspection of Children's Services between 26 February and 22 March 2018.
4. Ofsted published their findings report on 21 May 2018 (**Appendix A**), which cites considerable improvements since 2015, which are detailed in the main body of this report. The report concluded that overall Children's Services in Darlington have improved considerably from a position of inadequate in 2015 to now being requiring improvement to be good.
5. Ofsted made recommendations for the continued improvement of children's services.
6. Within the overall judgement, Ofsted concluded the following three graded domain judgements and two sub domain judgements:
 - (a) Children who need help and protection – **Requires improvement to be good** (Inadequate at 2015 inspection).
 - (b) Children looked after and achieving permanence – **Requires improvement to be good** (Requires improvement to be good at 2015 inspection).
 - (i) Adoption performance – **Good** (Good at 2015 inspection)
 - (ii) Experiences and progress of care leavers – **Good** (Good at 2015 inspection)
 - (c) Leadership, management and governance – **Requires improvement to be good** (Inadequate at 2015 inspection).

Recommendation

7. Audit Committee are recommended to note:
- (a) the findings of the SIF re-inspection of Children's Services
 - (b) the revised inspection regulation framework that the Council is now subject to
 - (c) that an improvement plan will be developed in response to the recommendations.

Reasons

8. That Audit Committee agreed they should receive regular update reports on improvement progress.

Suzanne Joyner
Director of Children and Adults Services

Background Papers

- (i) Darlington Childrens Services Improvement Plan 2015-17
- (ii) Ofsted – Inspection of services for children in need of help and protection, children looked after and care leavers
- (iii) Review of the effectiveness of the Local Safeguarding Children Board
- (iv) Ofsted Monitoring Visit Letters – July 2016, October 2016, February 2017 and September 2017
- (v) DfE six and twelve month reviews
- (vi) Letter from Minister of State for Vulnerable Children and Families – June 2016 and January 2017
- (vii) Ofsted – Re-inspection of services for children in need of help and protection, children looked after and care leavers, published 21 May 2018

Sharon Raine 6091

S17 Crime and Disorder	This report has no implications for Crime and disorder.
Health and Well Being	This report has implications for the health and wellbeing of vulnerable groups of children.
Carbon Impact	This report has no implications for Carbon Impact.
Diversity	This report has no implications for Diversity.
Wards Affected	All wards within the Borough of Darlington are affected.
Groups Affected	Looked After Children and Care Leavers and Children in Need of Help and Protection.
Budget and Policy Framework	This report does not recommend any changes to the budget and policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent matter.
One Darlington: Perfectly Placed	This report has implications for ensuring that children have the best start in life
Efficiency	This report has no implications for Carbon Impact.
Impact on Looked After Children and Care Leavers	This report has implications for the care and wellbeing of Looked After Children and Care Leavers.
S17 Crime and Disorder	There is no specific crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	Some of the initiatives contained within ICT Strategy will help contribute towards the carbon reduction commitments.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	Financial implications will be considered in the Medium-Term Financial Plan. This report does not affect the policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	The ICT strategy supports the business of the Council in delivering ODPP
Efficiency	There will be efficiency savings generated as a result of implementing the ICT Strategy. The introduction of new technology is key to providing efficiency savings within Council services.

Impact on Looked After Children and Care Leavers	There is no specific impact.
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MAIN REPORT

Ofsted Inspection Process

9. Ofsted carried out a four week SIF re-inspection of Childrens Services in Darlington between 26 February and 22 March 2018. Inspectors examined the experiences of children and young people who have needed or still need help and/or protection. This also included children and young people who are looked after and who are leaving care. The SIF re-inspection did not focus on the effectiveness of the Local Safeguarding Childrens Board.
10. The focus of the inspection was to consider the quality of work and the difference that children's services make to the lives of children, young people and families. Inspectors reviewed case files, observed how professionals work with families and each other and talked directly to young people about their experiences. Inspectors also tested the extent to which the authority understood about its own performance and the impact of leaders and managers.

Inspection Findings

11. Ofsted judged that Childrens Services in Darlington require improvement to be good. The progress from a judgement of inadequate in 2015 was noted as a considerable achievement, pivotal to which was dynamic leadership, effective political and corporate support and significant resourcing of the improvement journey.
12. The overall judgement is based on three graded domain judgements and two sub domain judgements:
 - (a) Children who need help and protection – **Requires improvement to be good** (Inadequate at 2015 inspection).
 - (b) Children looked after and achieving permanence – **Requires improvement to be good** (Requires improvement to be good at 2015 inspection).
 - (c) Adoption performance – **Good** (Good at 2015 inspection).
 - (d) Experiences and progress of care leavers – **Good** (Good at 2015 inspection).
 - (e) Leadership, management and governance – **Requires improvement to be good** (Inadequate at 2015 inspection).
13. Ofsted Inspectors reported the following specific findings (quoted from the report):
 - (a) It has been a considerable achievement for the Local Authority to have improved the services that were judged to be inadequate at the previous inspection in 2015, whilst sustaining the quality of those services that were judged to be good
 - (b) Leadership and governance have markedly improved. Senior leaders know the services, quality of social work practice and improvement priorities well
 - (c) Pivotal to the improvement is the effective political and corporate support, including significant resourcing

- (d) Corporate and political oversight and scrutiny are now effective and social care performance management is well developed
- (e) The Council is a committed Corporate Parent, working closely with and acting on the views of the active and influential 'Darlo Care Crew', it engages partners effectively and prioritises council resources to support and improve outcomes for children who are looked after
- (f) Strategic and operational partnership working is generally well developed and effective
- (g) Persistent and wide ranging approaches have successfully improved workforce stability, capacity and development
- (h) No children were found in situations of unassessed or unmanaged risk, and a relentless focus on compliance has ensured that children are seen promptly and regularly
- (i) When children and families need help, they get the right service and when children are at serious risk of harm partners work together well and quickly to make sure they are safe
- (j) Social workers see children regularly and know their wishes and feelings

14. Inspectors also reported that the following areas needed continued improvement (quoted from the report):

- (a) The quality of practice and management oversight require improvement to be consistently effective. Assessments are too descriptive, lack analysis and clarity about what needs to happen next to ensure that work with families progresses quickly
- (b) Whilst children who are in care get good educational support, their progress and attainment at Key Stages 3 and 4 needs to improve
- (c) Some children have too many moves of placement. The matching of children with foster carers, the training of an information sharing with the carers is not sufficiently developed to consistently support placement stability, especially for children with complex needs
- (d) Children become looked after in response to a crisis, in some cases opportunities for a more planned approach are missed. Edge of care services are not sufficiently developed to provide a timely response for all those families whose children may become looked after

15. **The experiences and progress of children in need of help and protection** was judged to require improvement to be good. Ofsted reported that tangible progress had been made since the 2015 inspection, where this domain was judged to be inadequate, and that:

- (a) Where children are at risk of significant harm there is a prompt and co-ordinated response to ensure their immediate safety
- (b) There have been significant improvements in the timely completion of assessments, with these being in line with the needs of the child and better than comparator authorities
- (c) Good examples of direct work with children were seen
- (d) Services to disabled children are timely, child centred and well-co-ordinated
- (e) Responses to children who are at risk of sexual exploitation and who go missing are timely and well-co-ordinated

- (f) The LA is tenacious in locating children who are missing from education, and has highly effective systems to keep track of those pupils who are electively home educated and to ensure that they are safeguarded
- (g) The assessment and provision for homeless 16 and 17 year olds is prompt and effective

16. Continued improvement is required in:

- (a) Quality of critical challenge by frontline managers and by Independent Reviewing Officers
- (b) Stronger analysis within assessments
- (c) Further development of edge of care services
- (d) An evaluation of the effectiveness of early help

17. **The experiences and progress of children looked after and achieving permanence** is judged as having sustained requires improvement to be good from the 2015 inspection. In particular Ofsted noted that:

- (a) Children who are looked after live in good quality placements, and are well supported to maintain contact with their birth families and to pursue leisure interests
- (b) The local authority has addressed the concerns from the previous inspection regarding the inappropriate use of Section 20, and this is now applied appropriately
- (c) Social workers know their children well, see them alone, and they complete meaningful direct work with children
- (d) The conclusion of care proceedings are timely
- (e) Chronologies for Court are of good quality
- (f) Children's emotional health and wellbeing is enhanced through a range of support and activities
- (g) The virtual school head has engaged with schools and colleges effectively and strengthened systems to track and support the education of children who are looked after
- (h) The Darlo Care Crew is an energetic group with clear views about their care and how services can be improved. They meet with Corporate parents regularly

18. The sub judgement areas of **adoption performance** and **experience and progress of care leavers** are also part of this domain. These are also reported to have sustained judgements of good. Ofsted noted:

- (a) Leadership and management of the adoption service is strong
- (b) Performance of the adoption service has improved in the past 12 months
- (c) Children whose plans are for adoption are identified without delay and placed promptly within adoption placements
- (d) Children are at the centre of adoption work
- (e) The service for care leavers has further developed since the last inspection
- (f) The authority is in touch with all of its care leavers
- (g) Individual risks to care leavers are clearly identified, including those at risk of child sexual exploitation and support in place to reduce risks

- (h) Care leavers have good relationships and receive positive support from personal advisers
- (i) A range of accommodation options are available for care leavers, with prompt flexible support and advice too. There is sufficient choice and availability, which means that care leavers rarely wait for accommodation
- (j) The proportion of care leavers in education, employment and training is better than in comparator authorities, they live in safe accommodation and are fully aware of their entitlements

19. Continued improvement is required in:

- (a) The terminology used in letters before proceeding so that parents are clear about what needs to change
- (b) Assessments and plans need to be clear and succinct
- (c) The time taken for special guardianship arrangements and long term fostering matches to be ratified
- (d) Further stabilise placements
- (e) Improve the training, assessment and support offered to foster carers and the quality of short-term placement matching
- (f) The timeliness of review health and dental assessments
- (g) The attainment of children who are looked after at Key Stage 4
- (h) Improve effectiveness of managers and IRO oversight and challenge to improve the quality of practice and to ensure work is progressed in a timely way

20. **Leadership, management and governance** was judged to require improvement to be good. Ofsted reported that the management of Childrens Service is now much more rigorous and effective, where previously this domain was judged to be inadequate, and that:

- (a) The Chief Executive Officer and Lead Member work well together with the Director of Children and Adults Services, they are well informed and the lead member is persistent, tenacious and well able to assert herself
- (b) Senior managers and leaders know themselves and their services well
- (c) Significant progress has been made with regards to statutory compliance
- (d) Elected Members have invested judiciously in Childrens Services
- (e) Governance arrangements are robust, having been strengthened and strategic partnerships are refreshed and revitalised
- (f) Scrutiny committee now provides effective challenge, and the LSCB now provides strong and effective leadership across the partnership
- (g) Senior managers and leaders have had significant success in stabilising the workforce, which cannot be underestimated and is pivotal to practice improvements that have been seen. Workforce development is strong. Staff talk very positively about the professional development and training opportunities that are available
- (h) The volume and quality of performance management information has improved significantly since the last inspection, the LA is well on its way to developing a comprehensive performance culture
- (i) Senior managers have taken decisive and appropriate action to address poor performance

- (j) Social workers and managers are motivated and feel valued, morale is good

21. Continued improvement is required in:

- (a) Strategic planning that focuses on measurable activities designed to improve outcomes for children, young people and families
- (b) The development of a more fluid, dynamic, partnership based and regional approach to commissioning
- (c) The development of a systematic quality assurance framework
- (d) A whole system approach needs to be taken to implementation of the Council's chosen practice framework

22. The recommendations contained within the inspection report will be taken forward through a newly developed Improvement Plan, which will be submitted to Ofsted.

Next Steps

23. As Childrens Services are now judged to be requires improvement to be good, intervention activity from Ofsted will cease. The DfE Improvement Board has ceased, as has the Independent Chair and the six monthly reviews. A light touch monitoring process will remain in place, in line with all Council's that improve from an inadequate judgment. The DCAS is in discussion with the DfE Link Officer regarding how this will take place.

24. The Council is now subject to inspection regulation under the Inspection of Local Authority Childrens Services Framework (ILAC), which replaces the SIF. This is a three year programme designed to be proportionate and more continuous in nature by way of an ongoing dialogue with the Council to assess performance rather than relying on a single inspection in a three year period. For Council's judged as requires improvement to be good, the programme (over a three year period) consists of:

- (a) An annual engagement meeting with Ofsted; this is based on the Council's own self-evaluation, previous inspection findings, the broader issues affecting children's services, and is used to inform themes for subsequent focussed visits. A letter confirming the outcome of the engagement meeting will be sent to the Council but it will not be published.
- (b) Up to two focused visits, which involve two day visits with Inspectors onsite, looking at one or more aspects of service, themes or cohorts of children. Findings from visits are published but graded judgements are not made.
- (c) A possible Joint Targeted Area Inspection (JTAI), which would replace a focussed visit, which is a multi-agency inspection of a specific themed area, with findings published.
- (d) One standard two week inspection, which will cover the full range of Childrens Services. Graded judgements are made on the four point scale of inadequate, requires improvement to be good, good and outstanding.

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Darlington

Inspection of services for children in need of help and protection, children looked after and care leavers

Inspection date: 27 February 2018 to 22 March 2018

Report published: 21 May 2018

Children's services in Darlington require improvement to be good	
1. Children who need help and protection	Requires improvement to be good
2. Children looked after and achieving permanence	Requires improvement to be good
2.1 Adoption performance	Good
2.2 Experiences and progress of care leavers	Good
3. Leadership, management and governance	Requires improvement to be good

Executive summary

It has been a considerable achievement for the local authority to have improved the services that were judged to be inadequate at the previous inspection in 2015 while sustaining the quality of those services judged to be good. Leadership and governance in Darlington have markedly improved. Pivotal to this improvement is the dynamic leadership of the director of children's and adult services (DCAS) and effective political and corporate support, including significant resourcing, for the improvement journey.

Senior leaders know the services, the quality of social care practice and improvement priorities well and have responded promptly to findings on this inspection. Corporate and political oversight and scrutiny are now effective and social care performance management is well developed. The impact of early help services has not been evaluated by the local authority.

Quality assurance processes have also improved, but require further development to continue to support practice improvement more effectively. Strategic plans are aspirational but are not supported by clear and concise action planning. This does not best support the need to increase focus on quality, pace and coordination of improvements.

Persistent and wide-ranging approaches have successfully improved workforce stability, capacity and development, particularly during the last six months. These have underpinned practice improvements. However, the impact of too many changes of social worker for children in Darlington is still evident.

No children have been found in situations of unassessed or unmanaged risk. A relentless focus on compliance has ensured that children are seen promptly and regularly. Immediate and acute risk is identified and responded to effectively. The timescales for completing assessments are in line with the needs of the child, are better than comparator authorities and reviews are undertaken within statutory timescales.

However, the quality of practice and management oversight require improvement to be consistently effective. The majority of assessments are too descriptive, are not analytical and do not effectively underpin planning. They are not updated in a timely way and some pre-birth assessments are not completed in time to allow for considered planning and action. Plans do not clearly identify important areas of focus and outcomes, what actions are required by whom and by when, and there is insufficient detail of how progress will be measured. This can mean that families are not clear about what is expected of them. The strategic implementation of the chosen practice framework has not yet been effectively embedded across the service.

Child protection conferences and statutory reviews for children looked after are timely. First line management oversight is evident but neither independent reviewing officers (IROs) nor managers are consistently effective in providing critical challenge about the quality of work or ensuring timely progression. This is particularly evident

where children have been suffering from neglect and interventions under the public law outline (PLO) should have been initiated sooner.

Strategic and operational partnership working is generally well developed and effective. Strategic priorities are appropriately aligned and responses to children at risk of sexual exploitation and who go missing are effective. There is effective oversight of children who are electively home educated, missing from education or receiving alternative provision. However, information from multi-agency risk assessment conferences (MARAC) is not sufficiently integrated within social care records for the local authority to be assured that all actions are in place to protect the child.

The majority of children become looked after in response to a crisis, and while those decisions are appropriate at the point at which they become looked after, in some cases opportunities for a more planned approach to care were missed. Edge of care services are not sufficiently developed or well-coordinated to provide a consistent and timely response for all families whose children may become looked after.

The council is a committed corporate parent, working closely with and acting on the views of the active and influential 'Darlo Care Crew'. Chaired by the chief executive, the panel engages partners effectively and prioritises council resources to support and improve outcomes for children looked after.

Children who are looked after live in good-quality placements and are well supported to maintain contact with their birth families and to pursue leisure interests. The virtual school headteacher (VSH) has engaged schools and colleges effectively and has strengthened the systems to track and support the education of children looked after. Outcomes for pupils in key stages 1 and 2 are improving and are better than the national average for looked after children, but improving progress and attainment at key stages 3 and 4 remains a priority for the local authority.

Some children have too many moves of placement, although recent strategies to reduce these have shown some impact at the time of inspection. The matching of children with foster carers and the training of and information sharing with the carers is not sufficiently developed to consistently support placement stability, particularly for children with complex needs. Health needs of children looked after are not consistently assessed or reviewed in a timely way.

The quality of the adoption service for children has been sustained and is good, responsive and timely. However, alternative permanence options for children are not pursued as effectively. Life-story work is not consistently completed with all children looked after.

Good-quality support and outcomes for care leavers have also been sustained, with a high proportion in education, employment and training and most living in safe and suitable accommodation. Care leavers are very positive about the help they receive from their personal advisers.

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Information about this local authority area¹

Annex A: Information about the local authority area

Previous Ofsted inspections

- The local authority operates four children's homes. Three were judged to be good and one judged outstanding in their most recent Ofsted inspections.
- The previous single inspection of the local authority children's services was published in September 2015. The judgements for the local authority were:
 - Overall effectiveness: inadequate
 - Children who need help and protection: inadequate
 - Children looked after and achieving permanence: requires improvement to be good
 - Adoption performance: good
 - Experiences and progress of care leavers: good
 - Leadership, management and governance: inadequate.

Local leadership

- The director of children's services (DCS) has been in post since December 2015.
- The DCS is also responsible for education services, adult services and public health services.
- The chief executive has been in post since August 2005.

Children living in this area

- Approximately 22,519 children and young people under the age of 18 years live in Darlington. This is 21% of the total population in the area.
- Approximately 22% of the local authority's children aged under 16 years are living in low income families.
- The proportion of children entitled to free school meals:
 - in primary schools is 18% (the national average is 15%)
 - in secondary schools is 15% (the national average is 13%).
- Children and young people from minority ethnic groups account for 6% of all children living in the area, compared with 21% in the country as a whole. The

¹ The local authority was given the opportunity to review this section of the report and has updated it with local unvalidated data where this was available.

largest minority ethnic groups of children and young people in the area are Mixed/Multiple ethnic group and Asian/Asian British.

- The proportion of children and young people with English as an additional language:
 - in primary schools is 7% (the national average is 21%)
 - in secondary schools is 5% (the national average is 16%).

Child protection in this area

- At 31 December 2017, 779 children had been identified through assessment as being formally in need of a specialist children's service. This is a reduction from 838 at 31 March 2017.
- At 31 December 2017, 89 children and young people were the subject of a child protection plan (a rate of 39 per 10,000 children). This is an increase from 69 (31 per 10,000 children) at 31 March 2017.
- At 31 December 2017, two children lived in private fostering arrangements. This is an increase from none at 31 March 2017.
- In the two years before inspection, three serious incident notifications had been submitted to Ofsted and no serious case reviews had been completed.
- There is one serious case review ongoing at the time of the inspection.

Children looked after in this area

- At 31 December 2017, 222 children are being looked after by the local authority (a rate of 98 per 10,000 children). This is an increase from 220 (97 per 10,000 children) at 31 March 2017. Of this number:
 - 89 (40%) live outside the local authority area
 - 41 live in residential children's homes, of whom 66% live out of the authority area
 - no children live in residential special schools
 - 153 live with foster families, of whom 38% live out of the authority area
 - 18 live with parents, of whom 22% live out of the authority area
 - no children are unaccompanied asylum-seeking children.
- In the last 12 months:
 - there have been 20 adoptions
 - 13 children became subject of special guardianship orders
 - 88 children ceased to be looked after, of whom 3% subsequently returned to be looked after.

The practice framework used in this area

Signs of Safety.

Recommendations

1. Improve and accelerate the focus on quality. Ensure that strategic plans clearly identify measurable actions to support quality, timely implementation, coordination and evaluation. Further develop the range and focus of quality assurance processes to effectively monitor and support practice improvement.
2. Improve the quality of assessments and plans to ensure that analysis effectively identifies the impact of risk on children, the areas for intervention, including the child's identity needs, and that the outcomes required are specific and measurable and that contingency plans are clear.
3. Ensure that clear assessment guidelines are in place and followed, including for pre-birth assessments, and that chronologies accurately reflect the impact of significant events in children's lives.
4. Ensure that the implementation of the social work practice framework is well planned and aligned with developments in the case management system.
5. Improve the effectiveness of managers' and IROs' oversight and challenge to improve the quality of practice and to ensure that work is progressed in a timely way, including the timely initiation of work under the PLO.
6. Continue to reduce the number of changes of social workers in order for children to develop more positive relationships with adults who can support them consistently and progress their plans.
7. Ensure the effective coordination of information from MARAC meetings and that actions are clearly recorded on children's case records and that they are implemented.
8. Develop and coordinate more timely services for families whose children are on the edge of care.
9. Develop a shared understanding of permanence to ensure that all permanence options are considered with equal urgency and attention.
10. Reduce the number of placement moves for children looked after and improve the training, assessment and support offered to foster carers and the quality of short-term placement matching.
11. Improve the educational progress and attainment at key stages 3 and 4 for children looked after.
12. Improve the timeliness of annual health assessments and dental checks to ensure that the health needs of children looked after are identified and met.

13. Ensure that direct work, including life-story work, is completed with all children looked after, to help them understand their history and origins and why they do not live with their birth families.
14. Evaluate the effectiveness of early help services to understand impact and to inform future developments.

Summary for children and young people

- Services for children and young people in Darlington have improved since the last inspection in 2015.
- Senior managers have worked very hard to make sure that there are more good social workers who stay in Darlington and that children have fewer changes of social worker. This has improved recently, but still needs to be better.
- When children and families first need help, they do get the right service, and when children are at serious risk, social workers, police and other professionals work together well and quickly to make sure that children are safe.
- Social workers see children regularly and know their wishes and feelings.
- The assessments and plans that social workers write can be difficult to read and are not always clear about what needs to happen next. Some of the work is not done quickly enough.
- Social work managers and IROs need to support social workers better to make sure that all work is completed as quickly as it should be.
- Children who are in care live in good-quality homes, although some children move too often.
- Children who are in care get good support for their education. However, progress for children in secondary school needs to improve.
- When the plan is for children to be adopted, they get a very good service and are adopted quickly.
- When children are going to live with other families until they are grown up, such as in long-term foster care or under special guardianship orders, these arrangements are not made quickly enough.
- The Darlo Care Crew represents young people in care well and makes sure that their views are heard and acted on by senior managers.
- Young people who leave care get good support and live in suitable accommodation, and care leavers are helped effectively to be involved in education, employment or training.

The experiences and progress of children who need help and protection	Requires improvement to be good
<p>There has been tangible progress since the last inspection and no children were found in situations of unassessed or unmanaged risk. However, further work is required to build on improvements in relation to the quality of social work practice and management oversight.</p> <p>Children and families are directed to the appropriate services in a timely way. Where children are at risk of significant harm, there is a prompt and coordinated multi-agency response to ensure their immediate safety. The quality of early help support from partner agencies is variable. The overall effectiveness of early help has not been evaluated by the local authority and therefore its impact is not fully understood.</p> <p>There have been significant improvements in the timeliness of completing assessments, although some pre-birth assessments are completed too near to the time of birth to allow for considered planning with, and preparation for, parents. The majority of assessments are too lengthy and descriptive, lacking clear analysis. This makes it difficult to determine the critical issues and impact on the child. Most written plans lack clear priorities of what needs to change, how this will be achieved and within what timescale. This does not support effective planning and the timely progress of work.</p> <p>Good examples of direct work with children were seen. Some children have experienced repeated changes of social workers and this makes it difficult for them to develop and maintain meaningful and trusting relationships, and for consistent and timely support to be offered.</p> <p>Although there is evidence of regular management oversight on case records, the quality of critical challenge by frontline managers and by child protection conference chairs is not always effective in driving progress and improving the quality of social work practice. As a consequence, decisive and timely action is not always taken when children are experiencing neglect.</p> <p>Services to disabled children are timely, child centred and well-coordinated.</p> <p>The local authority's edge of care services are not sufficiently well developed and coordinated.</p> <p>Responses to children who are at risk of sexual exploitation and who go missing are timely and well-coordinated. The assessment and provision for homeless 16- and 17-year-olds is prompt and effective, with young people having access to a wide and appropriate range of accommodation, provision and support.</p>	

Information from MARAC meetings is not sufficiently integrated in social care records for the local authority to be assured that all actions are in place to protect the child.

Inspection findings

15. A broad range of services are available to support children and families at an early stage. The early help performance framework was not implemented at the time of the inspection and so the local authority is not able to evidence the impact of the work. Partner agencies need to further engage in this work. (Recommendation)
16. Early help assessments completed by local authority services are of good quality and reflect children's views, but the quality of assessments undertaken by partner agencies is more variable. Families are stepped up appropriately to social care when early help is not improving the circumstances for children.
17. The children's access point (CAP) provides an effective multi-agency response. Thresholds are appropriately applied, which means that children receive a timely response in line with their needs. The local authority consistently ensures that parental consent is sought to share information and offer services. In cases where it has not been possible to obtain consent, the service manager chairs 'no consent' meetings to ensure relevant information is obtained to determine the best way forward.
18. Where children are identified as being at risk of significant harm, work is passed immediately to the first response team, and there is a safe and effective response. Strategy discussions and child protection investigations are timely, and decisions about how to proceed are appropriate. Risks and protective factors are clearly identified and carefully analysed.
19. Effective arrangements are in place through the Tees Valley area out-of-hours service (OOH), ensuring that children are safeguarded out of office hours. There are positive working relationships between the OOH team and social work teams. Information sharing is timely and case recording up to date and thorough.

20. Assessments are timely and some good quality assessments were seen. However, the majority contain too much description and are not sufficiently analytical. They are not always clear about what needs to change, parental capacity for change and timescales for these changes to happen within. This makes it difficult to determine the critical issues and any impact on the child. Assessments are not routinely updated when the child or family's circumstances change. Chronologies are poor. They do not effectively identify the impact of significant events in the child's life and do not inform assessments and ongoing work. However, chronologies submitted to court are of good quality. (Recommendation)
21. A small number of pre-birth assessments were not initiated or completed in a reasonable time before birth, meaning that plans and actions were rushed and parents and practitioners were not sufficiently well prepared. Senior managers responded promptly to these findings and initiated appropriate immediate and longer-term actions.
22. Children's written plans do not consistently and clearly identify key issues. Most are not specific or measurable. The plans do not make it easy for parents to make sense of what they need to achieve by when and what will happen if change is not secured. (Recommendation).
23. Children are seen by their social workers and in most cases they are seen alone. Social workers use a range of tools to engage with children, with some very good direct work being undertaken. While the child's views are clearly expressed, it is difficult in some cases to gain a sense of the child, what life is like for them and how their experiences have informed the assessments and plans.
24. Some children have had too many changes of social worker, which means that they do not have the opportunity to develop trusting relationships in which they can confidently share their views. In some cases, frequent changes of social worker have contributed to a lack of continuity, resulting in some delay in progressing the work with the child and family. (Recommendation)
25. Although there is regular management oversight of case records, the quality of critical challenge provided by team managers and advanced practitioners is not always effective in securing necessary change for children and improving the quality of practice. Changes of line manager have impacted negatively on timely decision-making for some children because there has been a lack of consistent oversight on cases. (Recommendation)
26. All child protection reviews are held within timescale. An observed initial conference identified relevant issues effectively, but IROs are not consistently offering constructive challenge by subsequently ensuring timely progression of plans for children or supporting practice improvements. (Recommendation)

27. While some children received excellent intensive support enabling them to remain appropriately cared for in their families, edge-of-care services are not sufficiently well developed and coordinated to consistently provide preventive services and improve outcomes for all children who may enter the care system. The local authority does not identify in a timely way children and young people who would best be supported through edge-of-care provision. (Recommendation)
28. The life stages team has responded comprehensively to findings from a previous monitoring visit and all disabled children within that service now receive thorough and timely reviews. Children's views are elicited through a range of tools and methods and clear analysis of all the information effectively supports recommendations. Services to disabled children are at the appropriate level of intervention, with prompt responses to requests for advice or service and thorough and timely assessments effectively informing subsequent planning. Workers understand the needs and complexities of the children well, and work with partner agencies is well coordinated.
29. The practice framework is not consistently and effectively used by social workers and partner agencies. Where it is applied well, risks, needs and goals are clearly analysed and articulated. However, in some cases, the model is used in a mechanistic way, for example with risks and strengths being recorded in list format and a lack of professional evaluation about how strengths can be used to mitigate risk. (Recommendation)
30. The response to children who go missing from home, care and education, and those who have been, or are at risk of being, sexually exploited is prompt, effective and well-coordinated. Timely return home interviews (RHIs) are undertaken by a dedicated missing from home family worker and the local authority is tenacious in locating children who are missing from education. Information is shared effectively and data is carefully analysed to identify trends, patterns, hotspots and risky individuals or groups and to inform appropriate protective action. Levels of risk are regularly reviewed for individual children, and all of this ensures that children are safeguarded and protected.
31. The local authority has developed highly effective systems to keep track of those pupils who are electively home educated and to ensure that they are safeguarded. The cases of those deemed to be at risk of harm are reviewed by a multi-agency group and a swift response is coordinated. This includes joint home visits by police and children's services to ensure children's safety. School nurses enable children who are electively home educated to access necessary medical services. Work with schools has ensured that parents have access to suitable information to inform their decisions about home education. There is robust partnership oversight of children who receive less than 25 hours of education, ensuring that they are safeguarded. Bespoke packages effectively support engagement with education, plans for reintegration to school and moves to post-16 provision.

32. The assessment and provision for homeless 16- and 17-year-olds is prompt and effective. Good partnership working is evident between the local authority and the housing team. Young people are advised of all options available to them and they have access to a wide and appropriate range of accommodation, provision and support.
33. MARAC arrangements are effective at addressing risk, but information sharing within the local authority is reliant on conversations between the social worker and the person who is nominated as the single point of contact. Key information from MARAC meetings are not recorded on the local authority children's case records or integrated into the child's plan. This means that important information is not readily available to, for example, out of hour's staff or social workers, and managers and the local authority cannot assure themselves that relevant actions are implemented. (Recommendation)
34. The local authority's designated officers ensure that prompt and effective action is taken when allegations are made against professionals or persons in positions of trust. This ensures that children are safeguarded. However, case progress is not always monitored in a timely way, although this has not left children at risk, and decisions about outcomes are made jointly with appropriate partner agencies. Work to engage faith communities other than Christian groups has not been effective.
35. Children who are living in private fostering arrangements receive a prompt assessment of their needs, and subsequent visits are regular. However, there is insufficient focus on the capacity of and requirements of the carers. In the very small number of currently open cases, no written plans were in place. The local authority responded promptly to the inspection findings, ensuring that identified deficits were addressed.

The experiences and progress of children looked after and achieving permanence

Requires improvement to be good

Services for children looked after continue to require improvement to be good, as at the last inspection, although good services for children who are adopted and for care leavers have been sustained and further improved. There is some effective social work practice, but there are a number of areas which are not yet good, such as assessments, planning, management oversight and challenge. As a result, there is delay for some children in securing permanence and ensuring that children's needs are thoroughly understood and addressed. Despite this, children looked after live in good-quality placements where their welfare is safeguarded.

At the point of becoming looked after, decisions for children are appropriate, but for some children the approach to care should have been more planned, including through earlier care proceedings. The conclusion of care proceedings is timely.

Social workers know children well and they regularly see them alone. However, children have too many changes of social worker, which means that trusting relationships are fragmented and plans are delayed. Social workers work well with other professionals and carers to address risks such as child sexual exploitation and going missing.

Children whose plans are for adoption are identified without delay and placed promptly with adoptive families. The timeliness of responses and the quality of the work undertaken with children and adopters is good. Equal emphasis is not afforded to all permanence options as some children are waiting too long for special guardianship orders or long-term fostering matches to be secured.

Some children have too many placement moves, although strategies developed to mitigate this have started to show impact. Although initial health assessments are improving in timeliness, the ongoing review and monitoring of children's health needs are not effective for all children, particularly in relation to annual health assessments and dental checks. Children's emotional health needs are well supported.

The VSH has engaged schools and colleges effectively, and strengthened the systems to track and support the education of children looked after. Outcomes for pupils in key stages 1 and 2 are improving and are better than comparators, but there is a declining trend in attainment for children looked after at key stage 4.

Care leavers report positively on relationships and support from personal advisers. The proportion of care leavers in education, employment and training is better than in similar authorities, they live in safe accommodation and are fully aware of their entitlements.

Inspection findings

36. Decisions made for children to become looked after are appropriate, but some children enter care in response to a crisis rather than in a planned way. The lack of an established edge-of-care service makes this more likely. In most cases, when risks escalate, weekly legal planning meetings track and monitor children effectively through pre-proceedings and, if necessary, through the court process. However, in some cases, proceedings should have started sooner because of parents' lack of co-operation with professionals or continuing high-level concerns. Some of the terminology used in letters before proceedings means that parents are not always clear about what needs to change, and the potential consequences of their lack of engagement are not clearly articulated. (Recommendation)
37. Once care proceedings have been initiated, cases progress in a timely manner and the vast majority are concluded within an average of 26 weeks. The district judge and Children and Family Court Advisory Support Service (Cafcass) have both noted an improvement in the quality of the work since the last inspection. Overall, they believe that the right cases are being brought at the right time, but also recognise that some applications to court should have been made sooner and this has meant delays in securing permanence for some children.
38. The local authority has addressed the concerns from the previous inspection regarding inappropriate use of section 20. Regular monitoring has meant that numbers have reduced and the local authority's figures are now in line with comparators. Section 20 is now applied appropriately, with legal proceedings being initiated where necessary to progress permanence planning for children. This is a positive response to previous concerns raised.
39. Most of the children who return home do so after a thorough assessment and with a period of social work support. In a small minority of cases, children returned home without a written assessment being completed. Social workers have provided support but, without a detailed and analytical assessment, the support is not as focused as it could be.
40. Social workers know children well. Statutory visits are timely and children are seen alone. Children told inspectors that social workers listen to them, and the child's voice is evident in most cases seen. Social workers complete purposeful direct work to help children understand their histories and their complex relationships, but this is not evident in all cases. Life-story work is often started too late and some children who have been looked after for several years told inspectors that they did not know what life-story work was. This means that not all children have full and accurate information regarding their history and origins and why they do not live with their birth family. (Recommendation)

41. Too many children experience too many changes of social worker. The Children in Care Council, known as the Darlo Care Crew, told inspectors this was its main concern. Although workforce stability is improving, some children reported having four or five changes of social worker in the past year and they did not like repeating their story when changes occurred. Such changes do not help children to build trusting relationships with professionals who they should be able to rely on for help and support. Frequent changes of social workers also mean that plans are interrupted and not progressed as swiftly as they should be. (Recommendation)
42. Children looked after are informed about advocacy and advocates, independent visitors, rights and entitlements by a participation officer when they first enter care. They use these services and the advocates ensure that the children's views are heard. Children know how to complain. Where there have been changes of social worker and where independent visitors are involved, the independent visitors have provided consistency of support for those children.
43. The quality of assessments is variable, with most lacking a thorough exploration of a child's circumstances, as well as the relevant views of children, parents and other professionals. Chronologies lack details of significant events and there is a tendency to describe rather than analyse findings. In most cases, there is a lack of attention paid to diversity and in particular the child's lived experience and the impact of separation, loss and attachment. Assessment guidelines are contradictory, meaning that assessments are not always up to date or refreshed when significant changes occur. (Recommendation)
44. Fostering assessments and some long-term matching documents are not of a consistently good quality as they provide insufficient scrutiny of carers' abilities to meet complex needs now or in the future. Other assessments are of a better quality. For example, together/apart assessments and child permanence reports are comprehensive. Connected persons assessments and special guardianship order (SGO) reports seen are thorough and clearly written. SGO support plans are also sufficiently detailed.
45. The variability of assessments results in a similar inconsistency of good-quality plans. Social workers know what the plan is but the written plans are overly detailed and complicated. Plans lack specificity of what needs to change, how this will be achieved and within what timeframe. Contingency plans are similarly vague. (Recommendation)

46. Equal emphasis is not afforded to the range of permanence options. Although children are living in good-quality placements, there are delays in confirming these as permanent homes. Unlike the urgency paid to adoption, children wait too long for special guardianship arrangements or long-term fostering matches to be ratified. During the inspection, the local authority changed its policy and agreed that children over the age of 12 will also be formally matched. Some of these children have been placed for many years but not had their security and sense of belonging enhanced by a formal match. (Recommendation)
47. Managers' and IROs' oversight of practice has not significantly improved since the last inspection. Although child looked after reviews are timely, there is a lack of rigour and urgency to progress plans or challenge practice concerns. IROs lack a shared understanding of what needs to be challenged and how to progress this to best effect change. Case supervision is not always regular or sufficiently focused on ensuring that tasks are completed or relevant to the work being undertaken. (Recommendation)
48. Some children experience too many placement moves. The local authority has recognised this and the placement stability strategy has shown some impact. Short-term stability is gradually improving, but is still below comparator local authorities, and long-term stability for children living in placements for two or more years has not shown sustained improvement. (Recommendation)
49. The local authority has been slow in developing a commissioning and sufficiency strategy to meet the needs of children looked after. Only recently has it developed a recruitment and marketing strategy for foster carers and it has failed to reach its net target of additional foster placements during the last year. However, the vast majority of children are being placed close to home and within 20 miles of their home address.
50. Foster carers are not always given the right preparation and support to help them maintain placements for children. Although positive regarding the training offered, foster carers noted that training does not always equip them to deal with complex needs and behaviours. Foster carers commented that they do not always receive sufficient information when children are placed. This was borne out by the lack of rigour seen in short-term placement matching. Referrals lack accurate and up-to-date information and it is not clearly evidenced how carers will meet a child's needs, how gaps will be addressed, and why this is a suitable match. Foster carers also reported that delegated authority arrangements are not always clear, and there is a lack of dedicated out of hours support for them. Overall, this lack of attention to good placement matching and support is not conducive to ensuring placement stability. (Recommendation)

51. Foster carers and other professionals work well together to understand risks and meet children's needs. For example, attention is paid to ensure that any risks associated with family contact are known and addressed. Foster carers noted how well schools manage incidents of bullying.
52. The general health needs of children looked after are not adequately addressed. The timeliness of initial health assessments is much improved, but too many children who are looked after do not have a timely annual health assessment or dental check. This means that the local authority cannot be assured that those children's health needs are being effectively identified, addressed and monitored. (Recommendation)
53. Children's emotional health and well-being is enhanced through a range of support and activities. In response to waiting times for child and adolescent mental health services, the local authority has employed two therapeutic social workers to support children's emotional health and development. Some family placement workers are trained in therapeutic approaches that also support placements. Foster carers support children in a range of hobbies and interests and take children on outings and holidays. Children are encouraged to attend outdoor activity holidays with their peers and all children looked after and foster carers have free leisure and activity cards to use locally.
54. The VSH has strengthened the systems to track the individual circumstances and achievements of children looked after. Consequently, the local authority has a much clearer picture of the outcomes of this group of pupils. This is enabling the VSH to identify the right priorities for improvement. For example, schools have been challenged regarding fixed-term exclusions, which has resulted in a reduction in their numbers, and the quality of personal education plans is much improved. Better relationships with designated teachers and recent training on early childhood trauma are leading to improved understanding of the needs of children looked after.
55. Education outcomes for children looked after at key stages 1 and 2 are improving and compare favourably to national averages for children looked after. Improving attainment outcomes for children looked after by the end of key stage 4 is a recognised priority for the local authority. While progress is beginning to improve in key stages 3 and 4, the VSH is aware that this is not yet strong or consistent enough to ensure that all children achieve well. (Recommendation)
56. The Darlo Care Crew, Darlington's children in care council, is an energetic group with clear views about their care and how services can be improved. Children meet with corporate parents regularly and have reviewed and strengthened the 'Pledge', which is a set of promises that the council has made to all children in care. The children are involved in a range of activities, including working with IROs to revise consultation documents to encourage all children looked after to have their voices heard.

The graded judgement for adoption performance is that it is good

57. Children whose plan for permanence is through adoption receive a good, responsive and timely service. Children who need an adoptive placement are identified without delay and are placed with their permanent families promptly. The service is particularly good at placing older children for adoption. Nearly a third of the children placed with their permanent families during the past year are children aged five and over. It is more difficult to find permanent homes for this age group.
58. Leadership and management of the adoption service is strong. Areas of strength and areas for development are well known. Performance is well monitored and a detailed action plan is in place to progress improvements to the service. Quality assurance processes include evaluations by the agency adviser from information provided to the family placement panel. This information is used in individual staff supervision, personal development reviews and team training to improve practice.
59. Performance of the adoption service is good and has improved in the past 12 months. Performance data for the service demonstrates timelier outcomes for children and adopters and is better than statistical neighbours and England averages in all of the three key adoption scorecard measures. This performance has been sustained and improved since the last inspection against a background of instability and in spite of the imminent move to a regional adoption agency.
60. The stability, experience and dedication of the social workers provide continuity and rigour in both the recruitment and training of adopters as well as in finding good permanent homes for children. Children are at the centre of adoption work in Darlington.
61. Recruitment and training for adopters is good. Adopters feel well supported throughout by their individual social workers. Social workers are encouraging and sensitive to prospective adopters during the rigorous assessment process. The comprehensive training package, which includes adoption preparation training, bespoke training, access to foster care training and wider local authority training, ensures that adopters are well prepared and can meet the diverse needs of children well. In addition, the service ensures that there is no delay in the assessment of adopters, as training opportunities from other Tees Valley local authorities can be accessed.

62. Adoption support, including that from the adoption support fund, is responsive and well planned. The process is handled sensitively, with the needs of children paramount. The majority of applications for support are made to fund the provision of psychological assessments and resulting plans for trauma and attachment therapy. This support is invaluable, and ensures that children's needs are well understood and that adopters have the right skills to meet the needs of children. As a result, disruptions are minimised and placements of children with their permanent families maintained. The adoption service also has access to in-house therapeutic social workers, who provide a timely and responsive service to support children.
63. Effective support is also available to birth parents through a commissioned service which provides independent support to birth families, including arrangements for final contact sessions, meetings with prospective adopters and Darlington's Post Box service.
64. The family placement panel is well established and effective. Attendance is consistently good. The panel chair and panel members are well trained and bring a diverse range of experience and knowledge to their role. Challenge from panel members is evident and seen to be improving in rigour. The agency decision-maker reports are appropriate and timely, and records increasingly demonstrate professional curiosity. This ensures that children and adopters receive a timely, well-considered, responsive service.
65. Reports and assessments completed by social workers are overall of good quality and have been fundamental to the success of the service in finding permanent adoptive families for children and in the stability of these placements. Prospective adopters' reports and child permanence reports are timely, detailed and analytical, providing a holistic assessment of prospective adopters and children. Where appropriate, these are sometimes complemented by well-considered 'Together/Apart' assessments, to consider whether it is in the best interests of brothers and sisters to live together. Family finding is further strengthened because the process of finding permanent adoptive families is undertaken by the social worker who has already been involved with the children in their previous placements. Consequently, the profiles of children that are produced for the prospective adoptive families by the social workers are comprehensive and insightful.
66. Comprehensive life-story work for adopted children is completed by the children's social workers and is provided in time for placement with their permanent families. Children's later-life letters are generally well written and sensitively describe the reasons why children were adopted and the rationale for the decisions made. However, there are examples of children's social workers using professional jargon within letters without providing explanation of the terminology. This could be confusing even when the children are older and read the letters.

67. If there are no in-house adopters suitable to meet the needs of the child, a referral is made to the Adoption Register England and Link Maker, and there is close liaison with other local authorities to ensure the timely identification of an adoptive placement for children. Adoption exchange days are also used well, especially for those children for whom it is harder to find a permanent family. Family finding is timely and from 1 April 2017 to 30 September 2018, just one child was referred to the Adoption Register.
68. Disruption rates are low and when they occur, independent reviews are undertaken and learning is shared within teams, with the family placement panel and with individual social workers in order to inform and improve practice.

The graded judgement about the experience and progress of care leavers is that it is good

69. The service for care leavers has further developed since the last inspection, and positive action has been taken to respond to almost all areas that were identified to improve in June of 2015. The improvements have gained pace in the last eight months and in some areas very recently. These are benefiting care leavers to varying degrees.
70. The local authority is in touch with all of their care leavers. This contact is meaningful and the frequency of contact and visiting is based upon care leavers' needs. The local authority is determined to maintain relationships with all young people and adults and is preparing to extend services to include those care leavers aged up to 25. The service is currently making contact with all those care leavers who have previously left the service and, to date, a number of care leavers over the age of 21 years have re-engaged with the service and are receiving some level of support.
71. Care leavers spoken with say they are happy with the support they receive from the service and they feel positive about their relationship with their personal adviser. Overall, they feel listened to and cared about. Care leavers say that they feel consulted with and involved in planning. The members of the care leavers' forum, for example, have revised and designed the information for care leavers, contributed to the website and are making suggestions for further improvements to the offer for care leavers. Forum members are also being consulted on suggestions for a new location for the service.

72. Care leavers are well informed about their entitlements, they know their rights well and these are clearly accessible on a dedicated care leaver page of the council website. The offers include access to driving lessons and an exemption from council tax for those on low incomes, including waiving council tax debt for all those care leavers up to 25 years old from 1 April 2018. Care leavers are given their important key documents promptly when they leave care. The delays in providing care leavers with their health histories has very recently been resolved, and these are also compiled and retained for the few care leavers who say they do not want them.
73. The established personal advisers know young people extremely well and they have long-standing relationships with each other. A care leaver spoken with said, 'I know all the team, so there is always someone I can speak to.' Personal advisers focus on the needs of care leavers and use their relationships effectively to support them in line with plans.
74. Pathway planning for most care leavers is effective, and supported by a recent improvement in written pathway plans. The plans are personal to care leavers and their views are well reflected and central to planning. One care leaver, reflecting the views of others, said, 'It's an opportunity to discuss and think about things.' The plans include a clear history and analysis of needs, and identify the potential for, or actual, risk. A small number of pathway plans were less effective when young people were not willing to engage or re-engage with partner agencies. Care leavers' ethnicity and identity is not always well reflected, although workers were able to discuss this more fully than plans showed.
75. Individual risks to care leavers, including those at risk of child sexual exploitation, are clearly identified, their needs are understood and the necessary support is provided to reduce risks. Care leavers are supported to think about their choices and to keep safe. Personal advisers increase their visits, at times to daily visits, to support those care leavers in crisis. The manager knows all the care leavers' presenting risks and uses individual supervisions effectively to guide personal advisers on how best to support young people.

76. A range of accommodation options with prompt, flexible support and advice is available for care leavers in Darlington. There is sufficient choice and availability, which means that care leavers rarely wait for accommodation. When care leavers experience difficulties with or in their accommodation, prompt action is taken to find solutions before these escalate. Wherever possible, care leavers are supported to live close to family members. The addition of 'taster flats' located close to children's homes helps care leavers transition to independence and stay close to their support networks. The number of care leavers remaining with their foster carers post-18 years, known as 'staying put', continues to be a positive and well-promoted option. A small number of care leavers are currently detained and receiving appropriate support from the service. Care leavers said that they feel safe where they live and like the locations.
77. Care leavers who are, or about to become, parents, receive good support, including examples of tailored provision, to assist them to learn parenting skills and safely care for their child.
78. Care leavers said that they get good support to access education, employment and training. This is a continuing success story in Darlington as the proportion of care leavers in education, employment and training continues to rise and is above local and national comparators. This is achieved through effective partnerships and a clear focus on individual care leavers when they disengage or are experiencing difficulties. There are creative and bespoke packages commissioned where care leavers had not previously engaged in other options. The council has been too slow in providing in-house apprenticeships, but three are now planned for later in 2018. Care leavers who attend university are well supported.
79. The achievements of care leavers are formally celebrated through an annual 'vibe' event, activities during national care leavers' week and, for example, a mini celebration for care leavers recently completing a bronze award in performing arts. Individual letters are sent throughout the year to acknowledge care leavers' achievements. Care leavers spoken with said that they value the birthday meals with their personal advisers when they are 18 and 21. Care leavers were also very positive about the recently introduced weekly food box scheme, initiated with local partners. This has been set up to provide workers with opportunities to engage with young people, particularly those who are reluctant, and it helps care leavers to manage their finances, purchase unexpected items or budget for a social event.

Leadership, management and governance	Requires improvement to be good
<p>Senior leaders have accepted and responded to the painful lessons from the last inspection and have ensured that the management of children’s services is now much more rigorous and effective. Significant progress has been made, particularly with statutory compliance, but senior leaders and managers recognise that there is still some way to go to improve quality, consistency and challenge and to ensure that services for children and families are good.</p> <p>Elected members have invested judiciously in children’s services. Governance arrangements have been strengthened and strategic partnerships have been refreshed and revitalised. The level of scrutiny and critical challenge is much improved and effective. The ‘family firm’ initiative is evidence of the council’s commitment to act as a good corporate parent.</p> <p>Senior managers have had considerable success in improving recruitment and retention. Workforce development is strong. The local authority now has fewer vacancies, is less reliant on agency staff and is starting to attract experienced social workers. Staff turnover has reduced considerably. However, families have yet to feel the full benefit of increased workforce stability. Strategic plans are general rather than specific, and there is very limited detailing of specific or measurable planning and activity. This does not support effectively an increased focus on quality or an acceleration of the pace of improvement. The early help strategy has been re-launched, but early help is not yet fully developed or effectively evaluated. Edge-of-care services are underdeveloped.</p> <p>Commissioning is undergoing a transformation. There is a great deal of purposeful activity going on. However, in the interim, the local authority is not consistently making best use of its resources. The local authority knows that it does not have the right mix of foster carers, and this shortfall contributes to too many placement moves for some children.</p> <p>The volume and quality of performance management information has improved markedly. Senior leaders now have a much clearer line of sight on practice and performance. They know what is happening at the front line. Practice compliance has improved significantly, but there is room for further improvement. In some service areas, managers still rely on manual tools to track performance.</p> <p>The local authority uses case management audits to identify areas for improvement, but the quality assurance system is under developed. Team managers and IROs are not consistently providing high-quality critical challenge. The quality of assessments and plans is still not good enough.</p> <p>Senior managers responded promptly to inspection findings, initiating immediate actions where appropriate.</p>	

Inspection findings

80. Senior managers and leaders know themselves and their services well. They are realistic about the size and scale of the challenges that they, and their staff, face but are ambitious for children and families. The chief executive and lead member work well together with the director of children's services, whose energy, enthusiasm and ability to involve and engage staff and partners is having a positive impact. The chief executive is well informed about, and has her finger on the pulse of, children's social care. The lead member is persistent, tenacious and well able to assert herself, as evidenced by her insistence on making sure that there are effective checks and balances in relation to the new regional adoption agency arrangements.
81. Governance arrangements are robust. The Children's Trust arrangements have been incorporated into the Health and Wellbeing Board (H&WB) and there are clear lines of accountability, and good communication, between the H&WB, the One Darlington Partnership Board, the Local Children's Safeguarding Board (LSCB), the Local Adults Safeguarding Board, the Corporate Parenting Panel and the Scrutiny Committee. By focusing on a small number of priorities for action each year, the local strategic partnership is able to demonstrate that it is having an impact on the lives of children, young people and families, including, for example, in relation to education, employment and training and domestic violence. The H&WB has actively embraced the Children and Young People's Plan.
82. The Scrutiny Committee now provides effective challenge. Members of the committee talk very positively about the in-depth training that they were required to complete and which taught them to be child-centred, gave them the confidence to be curious and enabled them to rigorously interrogate practice and performance. Increased transparency, and a much sharper focus on impact and outcomes, means that senior managers are robustly held to account.
83. Senior managers responded promptly to inspection findings initiating appropriate actions, for example in relation to private fostering and pre-birth assessments.
84. Key strategic partnerships have been refreshed and revitalised. Good working relationships with the police mean that there is an effective, joined-up response to child sexual exploitation and children who go missing from home, school or care, one that extends to children who are being electively home educated. There is effective engagement with the safeguarding agenda from education partners. More purposeful engagement with health services also has the potential to deliver better outcomes over time. The LSCB now provides strong and effective leadership across the multi-agency partnership.

85. Strategic plans outline general principles rather than focus on specific and measurable activities designed to improve outcomes for children, young people and families. This does not effectively support the local authority's need to increase the focus on quality and accelerate the pace of change now that statutory compliance in social work practice has been achieved. (Recommendation)
86. The local authority is in the process of moving from a traditional, conservative and largely reactive approach to commissioning to one that is more fluid, dynamic and based on multi-agency partnership working and regional collaboration. There is much purposeful and focused work, including with public health, to develop ward-level data in order to identify potential hot-spots, to try to avoid damaging placement breakdowns. There is also purposeful and focused work with health and education partners to develop a more cost-effective approach to the commissioning of therapeutic support services. However, the processes of and outcomes from commissioning need to be further developed. The early help offer has not yet been fully implemented, edge-of-care services are not fully developed and the local authority acknowledges that it is not consistently making best use of its own residential provision. A lack of sufficient local foster carers is also contributing to placement instability for some children. (Recommendation)
87. Chaired by the chief executive, and with close links to the Darlo Care Crew, Darlington's equivalent of the Children in Care Council, the corporate parenting panel is constantly challenging itself, its senior managers and staff and its partners to be good corporate parents. As a good corporate parent, the local authority pays for driving lessons for older children, continues to provide leisure cards for all children in care and their foster families, and has significantly reduced the number of care leavers who are not in education, employment or training.
88. The quality of performance management information available has improved significantly since the last inspection. Monthly performance reports provide a wealth of accurate and reliable data and complement the weekly exception reports which team managers and advanced practitioners use to monitor individual and team performance. With performance being discussed in supervision, team meetings, monthly performance clinics and quarterly assurance days, there is a much greater recognition, and sense of ownership, of the significance and importance of data. The local authority is well on the way to developing a comprehensive performance culture. As a result, compliance has improved considerably. Children are seen regularly and their needs are assessed within the relevant timescales and reviewed in a timely fashion. Most staff receive regular monthly supervision.

89. However, some managers are still having to use manual systems to monitor and track progress in key areas of activity. Despite the fact that this was one of the key recommendations made at the time of the last inspection, the early help scorecard is currently only available in draft, although the local authority report that it is at the testing stages of how it measures impact. Senior managers are able to track supervisory practice, but do not have a direct oversight of the number of changes of social workers that children and families have had, and continue to experience.
90. The local authority's approach to quality assurance is under-developed. Managers are spending a disproportionate amount of time and energy every month on case management audits, most of which tell them what they already know. They are not consistently making good, systematic use of a range of quality assurance methods to improve the quality of work, particularly where practice deficits are already known. This has had an impact on the pace of change and means that, with the exception of adoption and care leavers, the service that children and families receive is not always good enough. (Recommendation)
91. Team managers, child protection conference chairs, independent reviewing officers and advanced practitioners are not consistently providing the right level of critical challenge to improve the quality and timely progression of work. This is, in part, a legacy of the recent history of unmanageable and unsustainable workforce instability, when the focus was almost exclusively on compliance at the expense of quality. It also reflects the fact that a significant number of team managers and advanced practitioners are still relatively new to their current posts.
92. The local authority's chosen practice framework is undoubtedly beginning to provide some added value, but there has not been a whole-system strategic approach to its implementation, and the approach that it does have is not being consistently applied. Although most staff have completed the required two-day training, assessment and planning templates have not yet been updated to complement and support the framework. The way in which the framework is being applied indicates that some managers and staff are not entirely clear about how to use it to best effect. This has the potential to undermine effectiveness. (Recommendation)
93. The local authority takes children's complaints seriously. Learning from complaints is carefully analysed and incorporated into training. However, the timescales for responding to complaints are poor, meaning that complainants wait too long for a conclusion. It is too soon for the recently enhanced management oversight to have had an impact.
94. Good working relationships with Cafcass and the judiciary, at both a senior management and an operational level, have helped to reduce the average length of care proceedings and there is a shared understanding of the improving quality of work.

95. The significant success that senior managers and leaders have had in stabilising the workforce cannot be underestimated and is pivotal to practice improvements that have been seen. Since the end of June last year, the local authority has had a full complement of senior managers, including service managers, all of them in permanent posts. A range of initiatives have included setting a cap on social work caseloads, regrading team manager posts and introducing an advanced practitioner role. The DCAS has also led a regional strategy on consistent agency recruitment, which has also supported permanent recruitment. These initiatives have built capacity and created a clear career pathway, and the local authority has succeeded in tempting good-quality agency staff to apply for permanent posts and attracted experienced social workers to come to work in Darlington. This provides a strong base for further improvements.
96. Conscious of the need to ensure that they have the right calibre of staff, senior managers have taken decisive and appropriate action to address poor performance. They are equally conscious of the need to develop and support the ongoing professional development of their staff and managers. New members of staff, especially those who are in a position to compare Darlington with other local authorities, talk very positively about the professional development and training opportunities that are available through the developing Darlington partnership. Although the quality of supervision is variable, most staff receive regular monthly supervision, and the majority have had their first performance appraisal. Good use is made of range of different staff forums to disseminate information, develop two-way communication and generate a sense of ownership.
97. The local authority has been creative and imaginative in raising its profile and enhancing its reputation as an employer. The principal social worker is instrumental in helping to ensure that newly qualified social workers are, and feel, well supported. The North East Training Partnership has acknowledged Darlington's approach to practice educators as a best practice example. Events like the recent annual social work conference, with its impressive line-up of keynote speakers, are helping to ensure that social workers and their managers are motivated and feel valued. Morale is good.

Information about this inspection

Inspectors have looked closely at the experiences of children and young people who have needed or still need help and/or protection. This also includes children and young people who are looked after and young people who are leaving care and starting their lives as young adults.

Inspectors considered the quality of work and the difference adults make to the lives of children, young people and families. They read case files, watched how professional staff work with families and each other and discussed the effectiveness of help and care given to children and young people. Wherever possible, they talked to children, young people and their families. In addition the inspectors have tried to understand what the local authority knows about how well it is performing, how well it is doing and what difference it is making for the people who it is trying to help, protect and look after.

The inspection of the local authority was carried out under section 136 of the Education and Inspections Act 2006.

The inspection team consisted of six of Her Majesty's Inspectors (HMI) and two Ofsted inspectors (OI).

The inspection team

The inspection team

Lead inspector: Graham Reiter, HMI

Deputy lead inspector: Nigel Parkes, HMI

Team inspectors: Pauline Higham (HMI), Karen Wareing (HMI) Fiona Millns (OI) Fiona Insley (OI) Claire Brown (HMI), Matthew Reed (HMI)

Senior data analyst: Peter McLaughlin

Quality assurance manager: Sarah Urding, Senior Her Majesty's Inspector (SHMI)

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AUDIT COMMITTEE
26 JULY 2018

ITEM NO.

ANNUAL REVIEW OF SIGNIFICANT PARTNERSHIPS 2017 - 2018

SUMMARY REPORT

Purpose of the Report

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

Summary

2. Through the principles of the partnership toolkit, Darlington Borough Council (DBC) has an established approach to monitoring the significant partnerships it is involved with. As a result there are good governance arrangements in place for these partnerships. The partnerships are delivering well against their objectives. The toolkit has been effective in identifying high level concerns of the significant partnerships, the most common of which are levels of resourcing, uncertainty as a result of emerging policy and fundamental changes in operating landscape.

Recommendation

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

Reasons

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

Paul Wildsmith,
Managing Director

Seth Pearson: Extension 6090

Background Papers

- (i) Audit Commission Report – Governing Partnerships – Bridging the Accountability Gap
- (ii) Completed Partnership Toolkit Questionnaires
- (iii) Partnership Working Toolkit Report to Cabinet 20 March 2007
- (iv) Partnership Annual Review Forms – Year Ended 31 March 2017
- (v) Changes to Partnerships in Darlington Report to Cabinet 6 March 2012

S17 Crime and Disorder	The Darlington Partnership and Safe and Cohesive Community Group have been key partnerships in ensuring that Safer Darlington is delivered which includes reduction of crime and disorder as a main priority.
Health and Well Being	The Darlington Partnership and the Health and Wellbeing Board have been key partnerships in ensuring that the Health and Wellbeing Strategy is delivered to improve all aspects of the health and well-being of people in Darlington.
Carbon Impact	The Darlington Partnership has been key in ensuring the environmental and economic sustainability of Darlington is assured.
Diversity	The Darlington Partnership have One Darlington as a key priority with an objective of a safe and caring community which supports communities and neighbourhoods to be more cohesive..
Wards Affected	All wards.
Groups Affected	All groups.
Budget and Policy Framework	This report does not recommend a change to the Council's budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	The Darlington Partnership have highest level responsibility for ensuring the delivery of One Darlington: Perfectly Placed
Efficiency	Partnerships that the Council is involved in are reviewed annually to consider outcomes delivered and resources expended.
Impact on Looked After Children and Care Leavers	There is no specific impact.

MAIN REPORT

Information and Analysis

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

Criteria for a Partnership to be classed as 'Significant'

8. A partnership is determined to be significant if:-
 - (a) DBC has a statutory duty or other government requirement to enter into the partnership; or
 - (b) It is a major contributor towards achieving the Sustainable Community Strategy objectives; or
 - (c) It is a major contributor towards improving the lives of children and young people or older people; or
 - (d) Takes a lead on setting the Council's policy framework; or
 - (e) DBC has the role of accountable body/lead agency and the annual expenditure of the partnership is more than £100,000; or
 - (f) DBC funds the partnership by more than £100,000 annually.
9. The partnerships identified as significant in accordance with this definition for 2017/18 are as follows:-
 - (a) 11 - 19 Partnership

- (b) Creative Darlington
- (c) Darlington Partnership Board (the LSP)
- (d) Darlington Safeguarding Children Board
- (e) Safeguarding Adults Board
- (f) Darlington Youth Offending Service
- (g) Safe and Cohesive Community Group (was CDRP)

Performance and Governance of Partnerships 2017-18

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

<http://intranet.darlington.gov.uk/services-search/complaints-and-information-governance/partnership-governance/>

11. All of the partnerships have evidenced good performance towards identified objectives for 2017/18 and have either established revised objectives for 2018/19 or have arrangements in place to do so.
12. Partnerships are complying with the governance requirements covered by the toolkit with few outstanding actions.
13. Reduction in funding and the consequent effect on capacity are the predominant issues raised by Lead Officers that have potential implications for the effective operation of the partnerships. Each partnership which has indicated this as an issue is monitoring closely.
14. The position on the issues raised will continue to be monitored by the relevant partnership lead officers.

Outcome of Consultation

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

AUDIT OF ACCOUNTS 2017-18

SUMMARY REPORT

Purpose of Report

1. To present a report by the Council's external auditors, Ernst and Young LLP (EY), on the audit for the year ended 31 March 2018.

Summary

2. The external auditors are required by the Audit Commission's Code of Audit Practice and International Standard of Auditing number 260 (ISA 260) to report to Members issues arising from the accounts audit. The ISA 260 details the significant findings from the audit by EY following their audit approach outlined in their audit plan presented to this committee in March 2018.
3. Members are specifically required to consider items that are classified as unadjusted audit differences, which officers propose not to adjust in the accounts. Officers have discussed the audit difference in the attached EY report and consider that the item is not material in the context of the Statement of Accounts as a whole. The item which officers are proposing to not adjust is as follows:-
4. The estimate that was used for the pension strain for an individual was understated by £10k and therefore the exit packages note was incorrect. The amount is not material in the context of the Statement of Accounts and it is recommended that it is not adjusted.
5. EY are also required to report to management and the Audit Committee any significant deficiencies in internal control identified during their audit. In this regard, EY have not raised any significant matters.
6. EY are expected to:
 - Give an unqualified opinion on the Council's 2017/18 accounts;
 - Conclude that the Council have put in place proper arrangements to secure value for money in its use of resources.
 - Confirm that the Council's Annual Governance Statement is not misleading or inconsistent with other information known to them.
7. EY's report is attached at **Annex 1** and will be presented by a representative from EY.

Outcome of Consultation

8. The content of this report was not subject to consultation.

Recommendation

9. It is recommended that:-

- a) The Auditor's ISA 260 report on the Council's 2017-18 financial statements be noted
- b) The accounts be not adjusted in respect of the item listed in the report.
- c) The Audit Committee is requested to approve the attached IFRS compliant Statement of Accounts at **Annex 2** for the 2017-18 financial year.

Reasons

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

Paul Wildsmith
Managing Director

Background Papers

- (i) Council's accounts 2017-18
- (ii) EY ISA 260

Peter Carrick: Extension 5401

S17 Crime and Disorder	There are no specific issues which relate to crime and disorder.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond the report comprising part of the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

Darlington Borough
Council
Audit Results Report

Year ended 31 March 2018

July 2018

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EY

Building a better
working world

Private and Confidential

July 2018

Dear Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our conclusions in relation to the audit of Darlington Borough Council ("the Council") for 2017/18.

We have substantially completed our audit of the Council for the year ended 31 March 2018. We confirm that we expect to issue an unqualified audit opinion on the financial statements in the form set out in Section 3, before the statutory deadline of 31 July 2018.

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 26 July 2018.

Yours faithfully



Nicola Wright
Associate Partner
For and on behalf of Ernst & Young LLP
Encl

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In April 2015, Public Sector Audit Appointments Ltd (“PSAA”) issued the “Statement of Responsibilities of auditors and audited bodies”. It is available from the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The “Terms of Appointment (updated February 2017)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (“the Code”) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Darlington Borough Council in accordance with the Statement of Responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Darlington Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Darlington Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary



Executive Summary

Scope update

In our Audit Planning Report presented at the 28 March 2018 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements.

We updated our planning materiality assessment using the draft 2017/18 financial statements, and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £5.2m (Audit Planning Report £5.1m). This results in updated performance materiality, at 75% of overall materiality, of £3.9m, however our threshold for reporting misstatements has remained the same at £0.3m.

Status of the audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

Outstanding Items

- Receipt of final IAS19 letter from the auditors of Durham County Council Pension Fund, Mazars;
- Completion of procedures required by the National Audit Office ("NAO") regarding the Whole of Government Accounts submission;
- Review of the final accounts; and
- Final review of audit work completed and audit completion procedures.

Audit differences

One unadjusted audit difference has been identified. This relates to a £10k difference in note 8c. Exit Packages, between the pension strain value agreed with Durham County Council Pension Fund and the value disclosed in the note. This has been highlighted as, although it is below our reporting threshold, it is a sensitive disclosure.

Three material adjusted audit differences have been identified in relation to the valuation of land and buildings. These have been set out in more detail in Section 4 of the report.

There have also been some other minor changes made to the draft financial statements and we summarise these in Section 4 of this report.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. Through our audit work, we have not identified any significant weaknesses in controls that we wish to bring to your attention.



Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in Section 2 of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue; and
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Value for money

We have considered your arrangements to take informed decisions, deploy resources in a sustainable manner, and work with partners and other third parties. In our Audit Planning Report, we identified two significant risks in relation to financial sustainability and the Children's Services Ofsted Inspection.

Following the completion of our work in relation to these risks, we propose to issue an unmodified conclusion on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We are required to perform procedures required by the National Audit Office ("NAO") on the Whole of Government Accounts submission. This work is ongoing at the time of writing this report.

We have no other matters to report.

Independence

Please refer to Section 9 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated.

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What judgements are we focused on?

The main judgements we focussed on were:

- Completeness of provisions in the accounts;
- Sundry creditors including year end accruals totalling £29.478m; and
- Valuation of short term debtors, including income accruals, of £20.458m.

What did we do?

- We reviewed and tested revenue and expenditure recognition policies;
- We reviewed, discussed with management, and tested (where appropriate) any accounting estimates on revenue or expenditure recognition for evidence of bias;
- We tested material revenue and expenditure streams, including testing revenue and capital expenditure to ensure it has been correctly classified; and
- We reviewed a sample of transactions recorded in the ledger and payments made from the bank account post year-end and confirmed that the associated income and expenditure has been recorded in the correct period.

What are our conclusions?

Our testing has not identified any material misstatements relating to revenue and expenditure recognition.

We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.

During the audit, we did however identify that the Council utilise the in-house Direct Labour Organisation (DLO) to perform capital works on behalf of the Council. The DLO perform the works as instructed and then recharge the Council the actual costs plus a profit percentage for the works completed. This profit percentage is market tested to ensure it is in line with external bodies.

As a result of this arrangement there is a profit element built into the value of the capitalised additions, performed by the DLO, in the Balance Sheet, along with the inclusion of a profit in the Comprehensive Income and Expenditure Statement. The value of this profit in 2017/18 is £1.1m.

We have highlighted this area, so that the Committee is aware of this treatment before approving the financial statements.





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Pages 65

What judgements are we focused on?

Our work in this area focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.

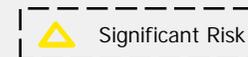
What did we do?

- We identified fraud risks during the planning stage of our audit;
- We inquired of management about risks of fraud and the controls put in place to address those risks;
- We developed our understanding of the oversight given by those charged with governance over management's processes over fraud;
- We considered the effectiveness of management's controls designed to address the risk of fraud;
- We determined an appropriate strategy to address those identified risks of fraud; and
- We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

What are our conclusions?

We did not identify any transactions during our audit which appeared unusual or outside of the Council's normal course of business.

We have not identified any instances of inappropriate judgements being applied.





Areas of Audit Focus

Other Area of Audit Focus

Valuation of land and buildings

What is the risk?

The fair value of Property, Plant and Equipment (“PPE”) represents a significant balance in the Council’s accounts and is subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

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What did we do?

- We have considered the work performed by the Council’s valuer, Kier, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- We have sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- We have considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the CIPFA Code;
- We have reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- We have considered changes to useful economic lives as a result of the most recent valuation; and
- We have tested accounting entries to ensure they have been correctly processed in the financial statements.

What are our conclusions?

We identified three material misstatements in relation to the valuation of land and buildings and we set these out on the following page.



Areas of Audit Focus

Valuation of land and buildings

As set out on the previous page, in our Audit Planning Report we highlighted the valuation of land and buildings as an inherent risk.

During the audit, we identified the following adjustments that have been made to the Council's financial statements:

- £40.8m adjustment to the net book value of Council Dwellings in both the 2016/17 and 2017/18 accounts due to the incorrect inclusion of accumulated depreciation, which should have been removed on revaluation. This impacts upon the Property, Plant and Equipment value disclosed in the Balance Sheet and will result in the value of the assets increasing, as well as the Comprehensive Income and Expenditure Statement and Unusable Reserves, however it does not impact upon the Council's General Fund.
- On review of the depreciated replacement cost (DRC) valuations, completed by the Council's valuer Kier, we identified that the location factor used was higher than we expected. This was queried with Kier who have confirmed that the location factor used was incorrect. As a result a reduction of £5.8m has been made to the value of the three DRC valuations included in the Property, Plant and Equipment balance disclosed in the Balance Sheet.

The Council has obtained valuations for both the Feethams Multi Storey Car Park and the Hippodrome. However, the split between land and buildings for both assets was incorrectly added to the fixed asset register which has resulted in the revaluation reserve reducing by £14.9m and the amount in the Comprehensive Income and Expenditure Statement by £14.9m.

These have all been amended and no other issues have been identified.



Areas of Audit Focus

Other Area of Audit Focus

Pension Liability Valuation

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

We have liaised with the auditor for the Durham County Council Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council. We are still awaiting formalised confirmation of the work performed, but through our preliminary discussions with them, there are no expected significant issues arising;

- We have assessed the work of the Pension Fund actuary (AON), including the assumptions they have used, by relying on the work of PwC - Consulting Actuaries commissioned by PSAA for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our conclusions?

At the time of writing this report, our work on the pension liability valuation was outstanding. We will update the Audit Committee of our findings at the meeting on 26 July 2018.



Areas of Audit Focus

Other matters

IFRS 15 – Revenue From Contracts With Customers (new accounting standard)

- The applicable accounting framework is CIPFA's annual Code of Practice on Local Authority Accounting in the United Kingdom (which is IFRS based as adapted for Local Authorities). The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018. The 2018/19 Code will determine how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies.
- It is our view, that IFRS 15 will not have a material impact on this Council's financial statements. The vast majority of the Council's income streams are taxation or grant based. The following income streams which are within the scope of IFRS 15 are immaterial to the Council:
 - Fees and charges for services under statutory requirements;
 - Sale of goods provided by the Council; and
 - Charges for services provided by a local authority.

We look forward to working with management to ensure any relevant changes in requirements are considered and dealt with effectively.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARLINGTON BOROUGH COUNCIL

Opinion

We have audited the financial statements of Darlington Borough Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement;
- Notes to the Core Financial Statements 1 to 41;
- Housing Revenue Account Income and Expenditure Statement and related notes 1 to 8; and
- Collection Fund Statement and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Darlington Borough Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Audit Report

Draft audit report

Our opinion on the financial statements

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Assistant Director - Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Director - Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Narrative Report of Darlington Borough Council by the Assistant Director - Resources set out on pages 3-13, other than the financial statements and our auditor's report thereon. The Assistant Director - Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Darlington Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.



Audit Report

Draft audit report

Our opinion on the financial statements

Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Assistant Director - Resources

As explained more fully in the Statement of Responsibilities for the Statement of Accounts of Darlington Borough Council set out on page 14, the Assistant Director - Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Assistant Director - Resources is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or have no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Audit Report

Draft audit report

Our opinion on the financial statements

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Darlington Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Darlington Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Darlington Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Audit Report

Draft audit report

Our opinion on the financial statements

Certificate

We certify that we have completed the audit of the accounts of Darlington Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Darlington Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Nicola Wright (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Newcastle upon Tyne

The maintenance and integrity of the Darlington Borough Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of unadjusted/adjusted differences

Unadjusted misstatement

The following misstatement in the financial statements has not been corrected by management. The error relates to a £10k difference in note 8c. Exit Packages, between the pension strain value agreed with Durham County Council Pension Fund and the value disclosed in the note for one individual. This has been highlighted as, although it is below our reporting threshold, it is a sensitive disclosure. Following additional testing in this area we are satisfied that it does not impact upon our audit opinion. This should be considered and approved by the Audit Committee and has been included in the Letter of Representation in Appendix B.

Adjusted misstatements

We highlight the following misstatements in the disclosures identified during the audit. These have been corrected by management:

£40.8m adjustment to the net book value of Council Dwellings in both the 2016/17 and 2017/18 financial statements due to the incorrect inclusion of accumulated depreciation, which should have been removed on revaluation. This impacts upon the Property, Plant and Equipment value disclosed in the Balance Sheet, which will increase in value as a result of the adjustment, as well as the Comprehensive Income and Expenditure Statement and Unusable Reserves, however it does not impact upon the Council's General Fund.

- On review of the depreciated replacement cost (DRC) valuations, completed by the Council's valuer Kier, we identified that the location factor used was higher than we expected. This was queried with Kier who have confirmed that the location factor used was incorrect. As a result a reduction of £5.8m has been made to the value of the three DRC valuations included in the Property, Plant and Equipment balance disclosed in the Balance Sheet.
- The Council has obtained valuations for both the Feethams Multi Storey Car Park and the Hippodrome. The split between land and buildings for both assets was incorrectly added to the fixed asset register which has resulted in the revaluation reserve reducing by £14.9m and the amount in the Comprehensive Income and Expenditure Statement by £14.9m.
- There were a number of inconsistencies between notes included in the financial statements. These have all been amended.



05

Value for Money Risks





Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

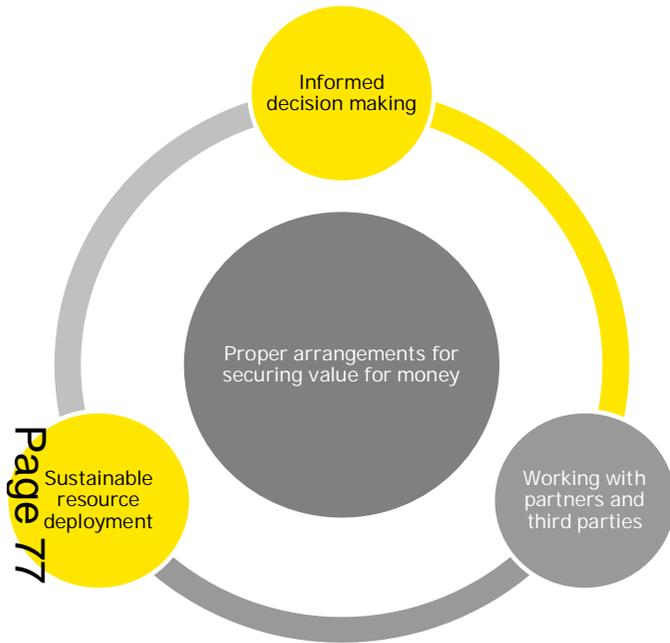
For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your Annual Governance Statement.



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Overall conclusion

We identified two significant risks around the value for money arrangements as part of our audit planning work. The table on the following page presents our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

Based on the work performed we expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in the use of resources.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>The Council faces a challenging set of financial circumstances, resulting from reductions in revenue made available from Central Government and additional budget pressures, including growing demand for services.</p> <p>The Council has produced a medium term financial plan that ensures it is able to provide all of its statutory services. However, as a result of further budget reductions and low levels of reserves, there is a risk that an unexpected cost pressure or unforeseen events may result in the Council being unable to deliver this plan.</p>	<p>Deploy resources in a sustainable manner</p>	<p>We have completed the following work in this area:</p> <ul style="list-style-type: none"> We have obtained a copy of the latest medium term financial plan and tested a sample of the assumptions used; We have reviewed the 2017/18 outturn report that was presented to Cabinet in June 2018 and assessed whether the medium term financial plan and cost reduction plans are on target; We have assessed the Council’s level of reserves using our financial resilience tools; and We have selected a sample of cost reduction plans and tested the assumptions used to ensure the savings targets are reasonable. <p>The testing performed has identified that the Council is currently delivering against its medium term financial plan and have recently reported a £530k improvement in 2017/18 against the projected outturn. Our testing of the assumptions used in the cost reduction plans and medium term financial plan have identified that they are reasonable. Based on the testing performed, we are satisfied that there is no impact upon our VFM conclusion from this risk.</p>
<p>The Council was subject to an Ofsted review in June and July 2015. This resulted in the Council being provided with an overall “inadequate” rating. The Council, along with external consultants Red Quadrant, have developed an improvement plan to address the issues raised by Ofsted.</p> <p>Subsequent correspondence from both Ofsted and the Department for Education highlight that improvements have been made, although further improvements are required.</p>	<p>Take informed decisions</p>	<p>We have completed the following work in this area:</p> <ul style="list-style-type: none"> We have received regular updates from senior officers during the year on the progress that has been made; and We have reviewed the findings of the Ofsted reports that have been received during the year. <p>On 21 May 2018, Ofsted confirmed that they would be lifting the “Inadequate” rating and as a result we are satisfied that governance arrangements have improved sufficiently, therefore there is no impact upon our VFM conclusion from this risk.</p>



06 Other reporting issues



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Narrative Report of Darlington Borough Council by the Assistant Director - Resources with the audited financial statements. We are satisfied that the Narrative Report is consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We are satisfied that the Annual Governance Statement complies with guidance and is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

Our work in this area is ongoing.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. We have nothing to report to you in relation to this.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



08 Data Analytics



Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee related expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all the Council's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

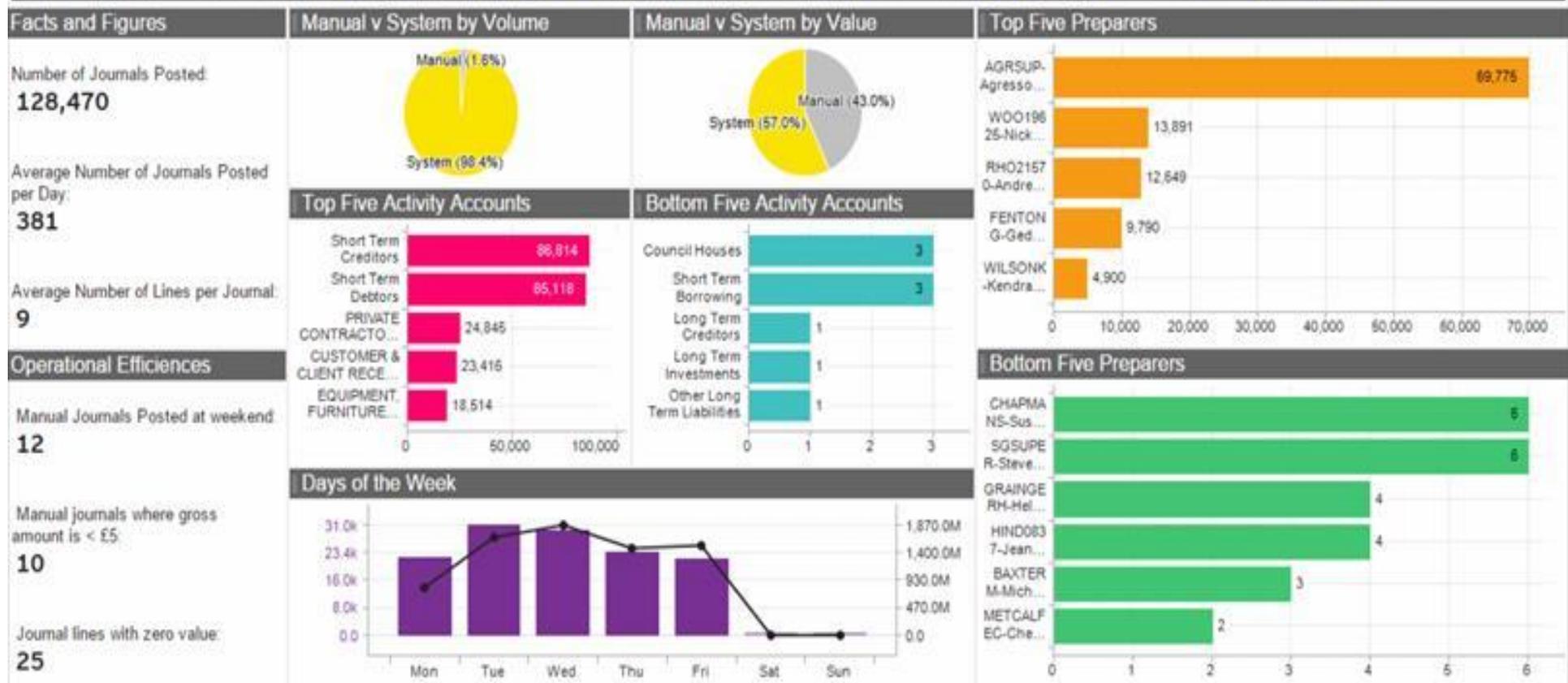


Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the Council's journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions. The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.

EY Helix - GLASS: Journal Entry Data Insights - 18 Darlington Borough Council - YE - 31/03/2018



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Journal Entry Testing

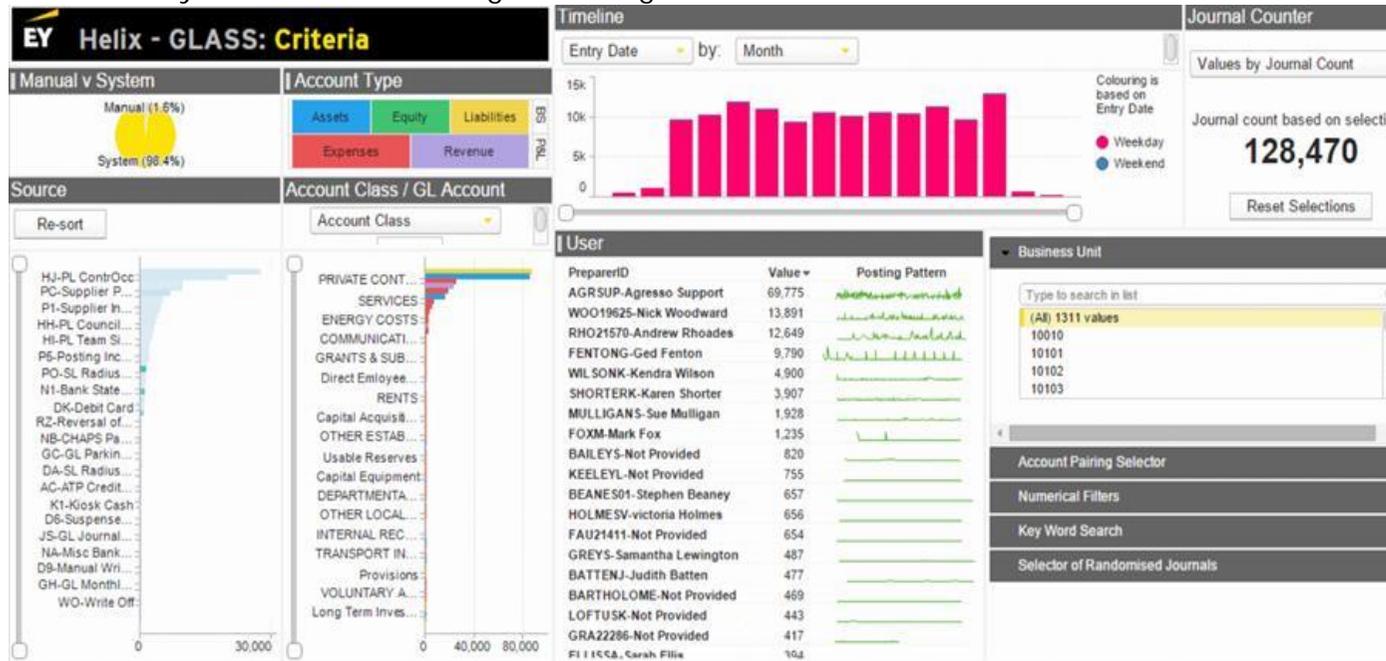
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – Darlington Borough Council – 31 March 2018



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



9

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented in March 2018.

We complied with the FRC's Ethical Standard and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement associate partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 26 July 2018.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee - Code work	93,264	93,264	93,264
Total Fee - Housing Benefit certification work	8,911	8,911	11,525
Total Audit fee	102,175	102,175	104,789
Non-audit work - Teachers' Pensions Certification	TBC	-	3,200
Non-audit work - Housing Pooling Certification	TBC	-	3,000
Non-audit work - Homes and Communities Agency Rent and Sale Checklist review	TBC	-	5,000
Total fees	102,175	102,175	115,989



10 Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The Statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report – presented March 2018	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report – presented March 2018	
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit Planning Report – presented March 2018	

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about Darlington Borough Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit Results Report - July 2018
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Committee - July 2018
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>Audit Committee - July 2018</p> <p>Audit Results Report - July 2018</p>

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Council’s related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Council 	Audit Results Report – July 2018
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <ul style="list-style-type: none"> • Details of any inconsistencies between the Ethical Standard and Council’s policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit Planning Report – presented March 2018</p> <p>Audit Results Report – July 2018</p>

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations.
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances of non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit Results Report – July 2018
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit Results Report – July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report – July 2018

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - July 2018
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report - presented March 2018 Audit Results Report - July 2018
Certification work	<ul style="list-style-type: none"> Summary of certification work 	Certification Report - later in 2018

Management representation letter

Management Rep Letter

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 8HW

Dear Sirs

Page 96

This letter of representations is provided in connection with your audit of the financial statements of Darlington Borough Council ('the Council') for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.
5. We are aware of one unadjusted audit difference, totaling £10k in relation to note 8c. Exit Packages. We believe that the effects of this unadjusted audit difference, accumulated by you during the current audit and pertaining to the latest period presented is immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected the difference identified by and brought to the attention from the auditor because of materiality.

Management representation letter

Management representation letter

B. Non-Compliance with Law and Regulations, including Fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have disclosed to you, and provided you full access to information and any internal investigations relating to all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;

- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- a) access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- b) additional information that you have requested from us for the purpose of the audit; and
- c) unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [date]

Management representation letter

Management representation letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and confirm that we have not given any guarantees to third parties.

E. Subsequent Events

1. There have been no events subsequent to the period end which require adjustment of, or disclosure in, the financial statements or notes thereto.

F. Other Information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement by the Assistant Director - Resources.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Comparative amounts

The comparative amounts have been correctly restated to reflect the removal of internal recharges that net off to zero in the prior year and also to remove the accumulated depreciation from Council Dwellings following their revaluation.

The impact of the removal of the internal recharges is a decrease in Gross Expenditure of £21,203k and a decrease in gross income of £21,203k. This amendment impacts upon the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis.

The impact of the removal of accumulated depreciation from Council Dwellings is an increase of £40,783k in the value of Property, Plant and Equipment. This also impacts upon the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Expenditure and Funding Analysis and the Capital Adjustment Account. We believe appropriate note disclosure of these restatements have also been included in the current year's financial statements.

Management representation letter

Management representation letter

There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's financial statements. Other differences in the amounts shown as comparative amounts from the amounts in the financial statements for the year ended 31 March 2018 are solely the result of reclassifications for comparative purposes.

H. Use of the Work of a Specialist

1. We agree with the findings of both the property valuers that we engaged to evaluate the valuation of Land and Buildings, and the actuary that we engaged to evaluate the valuation of the pension liability. We have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

I. Estimates

Valuation of Land and Buildings

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the significant assumptions used in making the valuation of Land and Buildings appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

Valuation of Pension Liability

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the significant assumptions used in creating the valuation the pension liability appropriately reflects our intent and ability to carry out the valuation on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

Yours faithfully,

Assistant Director - Resources

Chair of the Audit Committee

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ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

**DARLINGTON BOROUGH
COUNCIL**

**Statement
of
Accounts**

2017/2018

Statement of Accounts 2017/18 of Darlington Borough Council

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Narrative Report of Darlington Borough Council

Chief Finance Officer Report

2017/18 has been another challenging year for Darlington with the continued austerity measures further reducing Government Funding, although as a Council we have responded well and once again met the savings targets and outturned under budget, adding £0.530m back to general fund reserves.

Darlington Borough Council has to date been proactive in adapting to an environment of significant service pressure and resource reductions. During the period 2010/11 to 2017/18 there has been a £31.6m cash reduction in government grant which in real terms (after taking inflation into account) equates to £42.4m and this is anticipated to increase to £51.0m by 2021/22. This is in the context of rising demand for services, in particular social care where the increasing older population and high profile child cases are putting strain on the already financially challenged services.

Whilst the economy overall appears to be improving the austerity measures are still impacting on the Council. The Local Government Finance Settlement for 2017/18 delivered no indication that the austerity measures facing the Council will improve. As expected there have been further reductions in particular to Revenue Support Grant and Public Health Grant, however, Better Care Funding has been announced which will be fully enacted by 2019/20 with the purpose of assisting with pressures in Social Care and Health.

In the Spring budget, following successful lobbying regarding escalating costs of Adult Social Care the Government announced additional funding of Improved Better Care Funding (IBCF). This means the Council will receive an additional £4.326m over 3 years on a reducing basis. With the funding came conditions on what it could be spent on and requires the plans to be signed off by the Health and Wellbeing Board, followed by approval from the Ministry of Housing, Communities & Local Government (MHCLG). Darlington's plan has received approval and will be used to offset expenditure on current pressures and demand to ensure sustainability whilst the service undergoes transformation.

The Council undertook a significant consultation exercise in 2016 following an in-depth and detailed review of all services which resulted in the agreement of a Core Offer budget by Council in June 2016. The Council acknowledged that spending would need to be further reduced by £12m per annum by 2019/20, reducing expenditure and services to a statutory level with a small Futures Fund of £2.5m for services which the Council does not have to provide but which add great value to Darlington and its residents.

Whilst the Core Offer is extremely challenging with a number of savings still to be delivered over the life of the current MTFP and further pressures haven't risen, the Council can still deliver the agreed plan but needs to continue to pursue with vigour our 3 conditions of Building Strong Communities, Spending Wisely and Growing the Economy. Nevertheless, through innovative financial investments, increased income and release of redundant earmarked reserves, the Council can still deliver the agreed balanced plan and extend the MTFP, and have also identified £4.1m to add to the Futures Fund for investment in services across the life of the MTFP.

It is planned to allocate the Futures Fund resources predominantly on a one-off basis across the following five themes of Community Safety, Maintain an attractive street scene environment, Maintaining a vibrant town centre, Developing an attractive visitor economy and Neighbourhood renewal.

As the financial statements demonstrate, the financial standing of the Council continues to be robust. We have well established financial management processes and procedures that stand up well in the ever changing and challenging environment of continuous change.



Elizabeth Davison

Assistant Director - Resources
Section 151 Officer
Darlington Borough Council

1 An Introduction to Darlington

Darlington Borough Council is a unitary local authority located in the western end of the Tees Valley, a sub-regional grouping that also includes the unitary authorities of Hartlepool, Middlesbrough, Redcar and Cleveland and Stockton-on-Tees. Since becoming a unitary authority in 1997, Darlington Borough Council has consistently worked in partnership with the other Tees Valley authorities, through the agency of Tees Valley Unlimited (TVU), on strategic investment and regeneration planning. Furthermore, Darlington is also a member of the Tees Valley Combined Authority. Created in April 2016, it is a partnership of the five Tees Valley authorities, and aims to drive economic growth and job creation in the area by working closely with the local business community and other partners to make local decisions to support economic growth. Under the devolution deal with the Government, the Combined Authority, chaired by the new Tees Valley Mayor, is taking on new responsibilities previously held by Westminster and Whitehall; for transport, infrastructure, skills, business investment, housing, culture and tourism.

Darlington is regarded as the 'gateway' to the Tees Valley and to the wider North-East region. Darlington station on the East coast mainline railway connects the Borough and Tees Valley with the rest of the UK, whilst Durham Tees Valley Airport, located within the Borough, provides links to Europe and the world through Amsterdam. Darlington sits at the crossing of the north-south A1 motorway and the east-west A66 trunk road. Location and excellent communications with a high quality of life in a sub-regional context are key assets in Darlington's attractiveness as a place to live and work.

Looking beyond the Tees Valley, Darlington is a place that has helped shape the modern world. The railway age started in Darlington and transformed global horizons. 'Made in Darlington' is stamped on bridges and installations across 6 continents and the Borough is now at the cutting edge of world-leading developments in sub-sea engineering, bio-medicine and digital business technologies. These are all essential connections for Darlington as a sustainable community - acting locally to build social, economic and environmental well-being with global mindfulness.

2 Darlington - About the Borough

Population - As of 2016, Darlington's population is estimated to be 105,600: a significant increase from 97,900 in 2001.

By 2034 it is estimated that the proportion of Darlington's population aged 65 or above will exceed 25% (currently 20%)

Demographics - Most of the population are long-term residents:

- 64.9% are owner-occupiers
- 15.5% live in social housing

However, 7.8% of the population moves to or leaves Darlington every year.

Darlington has a higher than average proportion of children and older people, compared to the North East of England

Income - Darlington residents, on average, are estimated to have the highest wages in the North East, with median gross annual earnings calculated to be £22,966.

Gross disposable Income (GDHI) per head, which takes into account all forms of incomes not just earnings, in Darlington is estimated to be £16,139 per year, which is slightly above the regional average.

Economy - Over £500 million of public and private sector investment has been attracted into Darlington over the last 5 years.

In terms of employment concentrations against National and Tees Valley averages Darlington has comparative advantage in a number of sectors, such as Manufacturing and Engineering, Specialised Construction, Logistics and Financial Services.

Diversity - In comparison to other areas in the UK, Darlington's population is not very ethnically diverse with just 6.2% of residents defining themselves as being non-white UK in the 2011 Census, compared to 20.3% for England as a whole.

People from Gypsy, Roma and Traveller communities comprise the largest ethnic minority grouping in Darlington.

Your Council - Darlington Borough Council has a gross budget of over £213m and employs around 2,000 staff in full time and part time contracts (excluding schools). Below is the make up of the workforce of the Council:

Headcount

	Female	Male	Total
Full Time	521	516	1,037
Part Time	751	214	965
Total	1,272	730	2,002

This equates to 1,381.54 FTEs.

3 Council's Performance

Darlington's sustainable community strategy (SCS), 'One Darlington: Perfectly Placed' outlines the vision for the borough, as agreed by the Darlington Partnership.

Darlington Partnership brings together all those who are committed to achieving the best for Darlington and its people. Membership includes the Council, NHS, Police, Fire and Rescue Service, business leaders, community and voluntary sector representatives and people from the wider community. The Partnership has two purposes:

- to agree what are the major issues and opportunities for Darlington; and
- to ensure action is being taken to address them

'One Darlington: Perfectly Placed' is the overall vision for Darlington's future agreed by the Partnership members and it has 8 outcomes which are set out below:

We will improve quality of life for all and reduce inequality by ensuring we have:

- Children with the best start in life
- More businesses and more jobs
- A safe and caring community
- More people caring for our environment
- More people active and involved
- Enough support for people when needed
- More people healthy and independent
- A place designed to thrive

In order to achieve these outcomes, the strategy also identifies three conditions which must be met for the vision to be realised.

1. Building Strong Communities

- Enabling people to live fulfilling lives with less involvement from public services:
 - People take personal responsibility
 - People live in communities with strong social capital, where people look out for each other
 - Communities come together and take ownership and responsibility for their neighbourhoods

2. Spending Every Pound Wisely

- Maximising value for all public services:
 - Public services are planned together and, where sensible, commissioned together
 - Every Pound is spent well on the things that make the most impact

3. Growing the Economy

- Generating income streams, employment and opportunities:
 - We have a strong and vibrant economy
 - We achieve growth in the economy

Delivery of the SCS is managed via a Performance Management Framework (PMF) of strategic performance measures as determined by the Darlington Partnership. Year end performance across the Council and the outcomes is mixed, with much positive news to build on but also some emerging priorities to take into account.

In terms of giving Children the Best Start in Life, the percentage of children achieving a good level of development in early years is the same as national and above regional and statistical neighbours and the participation of Darlington 16 and 17 year olds in 2016 stood at 92.49%, above the averages for the North East (92.34%), statistical neighbours (92.14%) and the national average (91.37%). Under-18 conceptions are falling and levels of family homelessness are significantly lower than the regional and national averages.

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In response to concerns about the levels of child poverty resulting from the continuing economic climate and welfare reforms, a successful bid was made to the Big Lottery Reaching Communities Fund for £60,000 to develop 'holiday hunger' projects in four areas of Darlington, which included activities as well as the provision of food. More broadly, the Darlington Health and Wellbeing Board has taken on the role of Children's Trust in the past year, to focus on the actions required to embed the children's agenda within its wider remit and the borough has a new Children and Young People's Plan which has outlined priority areas - including youth unemployment, mental wellbeing and child poverty - and key actions for the future.

In terms of priorities going forward, attainment of pupils eligible for free school meals needs to improve, as does general education attainment between Key Stage 2 and Key Stage 4. Whilst breastfeeding and rates are improving, they are still worse than the national average, and the proportion of mothers smoking at the time of delivery has increased in the last year. Hospital admissions for self-harm and alcohol-related issues are still above average, and the proportion of children living in poverty is rising and expected to grow.

Regarding the economy, on most indices Darlington has outperformed regional and national growth trends since 2012, including increases in measures relating to the 'cost of living' with median weekly workplace and residence-based earnings both showing significant growth, although these indices are still below the national average, particularly residence-based earnings. Average gross disposable household income fell slightly in 2015/16, to 80% of the national average, likely due to the impact of welfare reforms and Darlington's relatively high over-65 population. Darlington's GVA grew by 5.8% between 2014 and 2015, the 7th highest percentage growth nationally of 228 areas, and Darlington's GVA per head increased 5.7% to £24,585, below the UK average but significantly above both the Tees Valley and wider North East averages.

Unemployment, as elsewhere, has consistently fallen since 2012 and is now only slightly below its 2008 level, at 6.0%. Mirroring this, the employment rate increased over the same period to 74.4%, compared to 74.9% for Great Britain. Breaking down unemployment data by age, however, shows that claimant count for young people is significantly above average: 6.8% of 18-24 year olds in Darlington claim working-age benefits, compared to 5.2% across the North East and 3.1% nationally. Deeper analysis however has shown that this disparity is largely due to a significant proportion of young people leaving the borough to attend university between these ages and that, once this is corrected for, Darlington is in line with the north east average for this metric. In terms of businesses, the number of VAT or PAYE registered enterprises has increased to 3,215 in 2017, from 2,625 in 2012.

The Council's contribution to making Darlington a safe and caring community is largely via its input to the multi-agency Community Safety Partnership, a group comprising the five 'responsible authorities' – the Council, the police, health, probation and fire and rescue – to tackle crime, anti-social behaviour, substance misuse environmental crime and reoffending. This group has been restructured to strengthen ties with the Health and Wellbeing Board and a newly created Multi-Agency Partnership, which allows for quick, operational responses to incidents of anti-social behaviour.

The effectiveness of partner agencies at ensuring a safe and caring community is reflected by findings that more than 90% of respondents to the council's recent Community Survey reported feeling safe during the day in their local area, although this was slightly less when relating to the town centre and less for feeling safe after dark (61% in local area and 48% in town centre areas). Taking these findings on-board, along with responses to the question of what would make people feel safer, the council is making changes such as:

1. A new enforcement team to tackle antisocial behaviour in and around the town centre;
2. Working closely with local private sector landlords to ensure they provide secure, safe properties;
3. Prioritising crimes and incidents which impact upon the safety, health and wellbeing of communities;
4. More community safety officers on the streets and more support for the victims of antisocial behaviour;
5. completion of the installation of a new LED street lighting programme to improve safety and visibility after dark

The MTFP decisions taken in June 2016, and implemented in October 2016, included significant cuts to the Council's Streetscene services, which are responsible for maintaining our parks, cleaning our streets and collecting our waste. Whilst the Community Survey found that 64% of respondents were satisfied with the cleanliness of the town centre, the council is responding to public concerns about problem areas, back lanes, street cleaning and bin emptying by using some of the Futures Funds identified in the 2017 budget to invest in these areas. The council is also appointing a private sector company to tackle environmental crimes. The self-financing company will begin patrols, mainly in the town centre, in September with £75 fixed penalty notices issued to anyone caught dropping litter or dog fouling.

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The council are also continuing to remodel service delivery, working closely with communities and volunteers - 2,135 volunteer hours have been pledged by Darlington Cares members to keep parks green and tidy - to target resources as effectively as possible, such as by focussing on fly tipping, back lanes and abandoned vehicles. More broadly, our Transport and Regulatory services teams will continue to monitor pollution levels, enforce legislation concerning the environment and encourage residents and businesses to take action to reduce contamination.

In terms of encouraging residents to be active and involved, the Council's Move More and Sports Development Team have enjoyed significant successes over the past few years in promoting physical activity across the borough, demonstrated by the awarding of Leadership Academy status by Sport Leaders UK in 2015. The proportion of adults who are physically active (defined as 150+ moderate intensity equivalent minutes per week) in Darlington, at 63.8% in 2016/17, is slightly below both the regional and national averages, at 64.0% and 66.0% respectively. More broadly, in terms of widening general participation in civic life, progress towards relocating the borough's main library to the Dolphin Centre represents a positive step towards encouraging greater use of this facility by a wider cross-section of Darlington residents.

In respect of Enough Support When Needed, the Council's performance with delaying and reducing the need for care and support is mixed. Darlington scores very well with regard to delayed transfers of care from hospital – only 7.9 per 100,000 population compared to 15.0 for England – and in terms of the proportion of over 65s offered reablement services following discharge from hospital 4.3% compared to 2.7% nationally. The proportion of those receiving a short-term service during the year where sequel was either no ongoing support or support of a lower level was above the national average of 77.8%, at 85.3%.

Conversely, the proportion of over 65s who were still at home 91 days after hospital discharge into reablement services is below average at 77.3% compared to 82.5% for England, although this measure is improving. In terms of the rate of adults whose long-term support needs are met by admission to residential and nursing care homes, per 100,000 population, Darlington has improved this metric significantly over the past year from being above average for England and the north east.

Ensuring that Darlington residents are healthy and independent, out of all the One Darlington outcomes, will require the most sustained and coordinated effort by agencies and residents across the borough. The determinants of health are wide-ranging and complex: our diet, upbringing, education, household income and even where in the borough we live, are just a few of the many factors that combine to predict our life expectancy, for example.

In terms of measures, Darlington consistently has higher rates of cancer screening than elsewhere, and has relatively low incidences of TB and new STIs. The council does, however, record higher than average levels of hospital admissions for alcohol-related conditions, recorded diabetes, smoking-related deaths, under 75 mortalities from cancer and premature mortality from all causes.

Finally, performance towards 'A Place Designed to Thrive' is generally positive. Just a few examples are: £3.3m has been secured from the Department for Transport National Productivity Fund for highway and transport improvements across the borough; significant progress has been made to move the local cattle market out of the town centre; Cabinet has agreed the release of capital to enable the construction of a new Grade A town centre office development ; and a new multiagency town centre marketing communications group has been established to promote the town centre and encourage footfall under the slogan #LoveDarlo.

A routine inspection by the Office for Standards in Education, Children's Services and Skills (Ofsted) of services for children in need of help and protection, children looked after and care leavers, was performed between 23 June and 16 July 2015. The inspection report subsequently published on 1 September 2015 gave Darlington an overall judgement of inadequate.

Several mechanisms were put in place to drive improvements across Children's Services as required by Ofsted and the Department for Education (DfE). Since that time work has continued and improvements have been made.

Ofsted had undertaken five monitoring visits, in line with the framework for monitoring and re-inspecting Local Authority Children's Services judged inadequate. The final monitoring visit was in September 2017.

In their letters, published one month after each visit, Inspectors noted improvements made and areas for continued development.

Workforce stability had greatly improved with a high level of engagement by senior managers with social work teams. Children are experiencing fewer changes in social work and are better able to develop positive relationships with them. Caseloads are more manageable and have reduced on average to 18. New technology is supporting agile working. This is helping social workers to focus more on direct work with children and their families.

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A DfE review took place on 28 June 2017, attended by the DfE Link Officer, and the Independent Chair of the Childrens Services Improvement Board. During this review they met with a range of social workers and managers as well as stakeholders, to discuss their progress and work to date.

Feedback was positive, with the review team praising the improvement progress to date, and acknowledging the continued improving morale of the workforce. This usually results in a letter from the Minister for Children. However the Council were informed that the Minister was taking a more risk based approach and is writing to those councils giving greater concern, and that Darlington will therefore not receive a letter.

On the 26 February 2018 Ofsted commenced the four week re-inspection of children's services. The focus of the inspection was;

- Children who need help and protection.
- Children looked after and achieving permanence
 - Adoption Performance
 - Experiences and progress of care leavers
- Leadership, management and governance.

Ofsted published their findings report on 21 May 2018, which cites considerable improvements since 2015. The report concluded that overall Children's Services in Darlington have improved considerably from a position of inadequate in 2015 to now being requiring improvement to be good.

Within the overall judgement, Ofsted concluded the following three graded domain judgements and two sub domain judgements:

- (a) Children who need help and protection – **Requires improvement to be good** (Inadequate at 2015 inspection).
- (b) Children looked after and achieving permanence – **Requires improvement to be good** (Requires improvement to be good at 2015 inspection).
 - (i) Adoption performance – **Good** (Good at 2015 inspection)
 - (ii) Experiences and progress of care leavers – **Good** (Good at 2015 inspection)
- (c) Leadership, management and governance – **Requires improvement to be good** (Inadequate at 2015 inspection).

The progress from a judgement of inadequate in 2015 was noted as a considerable achievement, pivotal to which was dynamic leadership, effective political and corporate support and significant resourcing of the improvement journey.

As Childrens Services are now judged to be requires improvement to be good, intervention activity from Ofsted will cease. The Council is now subject to inspection regulation under the Inspection of Local Authority Childrens Services Framework (ILAC) which replaces the Single Inspection Framework (SIF). This is a 3 year programme designed to be proportionate and more continuous in nature by way of an ongoing dialogue with the Council to assess performance rather than relying on a single inspection in a 3 year period.

4 Financial Performance

Economic climate

Since 2010 Darlington Borough Council has faced significant financial challenges due to reductions in funding from central government along with cost pressures and increasing demand within services. The process of balancing the Council's finances is ongoing and will last until at least 2021/22 whilst government policy is being developed.

In common with the rest of local government, the Council has seen a steady reduction in its core funding in recent years. The Governments aim is to phase out non-specific grant funding altogether, instead allowing local authorities to retain a higher proportion of business rates collected locally.

Following the referendum result in June 2016 which meant that the United Kingdom was to leave the European Union (EU), the formal process began in March 2017 when Article 50 was triggered. The implications of leaving the EU are not fully known but there could be a potential impact on the Council due to reductions in EU funding, a change in interest rates, an increase in expenditure and general impact on the residents of Darlington.

The impact of 'Brexit' will be closely monitored and any adverse effect considered in future plans and reported through the appropriate medium. Indeed the Council has already seen a reduction in investment income as a result of interest rate uncertainty.

Outturn (revenue and capital)

The financial standing of the Council is very robust with sound financial management practices.

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Comparison of Actual with Budget - Revenue

Net Expenditure 2017/18	Budget £'000	Actual £'000	Variance £'000
Departmental Resources			
Children and Adults Services	52,006	51,093	(913)
Economic Growth Group	6,347	5,285	(1,062)
Neighbourhood Services & Resources	21,239	19,889	(1,350)
Council Wide	205	(89)	(294)
Total Departmental Resources	79,797	76,178	(3,619)
Corporate Resources			
Financing Costs	1,618	1,018	(600)
Contingencies Budget	(2,161)	(2,130)	31
Mid-year Savings	340	0	(340)
Contingencies Budget Savings	557	0	(557)
Release from Earmarked Reserves	0	(1,000)	(1,000)
Unallocated Grant Income	0	(156)	(156)
Total Corporate Resources	354	(2,268)	(2,622)
Net Expenditure	80,151	73,910	(6,241)
Reserves			
Planned Use of General Reserve	(920)	(920)	0
Departmental Balances brought forward	(1,745)	(1,745)	0
Departmental Balances carried forward	0	1,898	1,898
Balance to Reserves	0	4,343	4,343
Total Reserves	(2,665)	3,576	6,241
Total Resources	77,486	77,486	0

Of the £3.619M departmental underspend, £1.898M is being carried forward and £1.721M is being returned to general reserves. The £2.622M corporate underspend is being returned to general reserves. In 2018/19, there is a planned use of reserves of £1.843M as set out in the 2018-22 Medium Term Financial Plan.

Where The Money Comes From and How It Was Spent

The following table explains in more detail the Council's sources of income and what it was actually spent on:

2016/17 £'000	Gross Income	2017/18 £'000	%
(20,304)	Gross Council Rents	(20,407)	8.1
(13,286)	Revenue Support Grant	(9,094)	3.6
(2,781)	General Government Grants	(3,112)	1.2
(21,788)	Business Rates Income	(23,456)	9.3
(23,261)	Dedicated Schools Grant	(22,411)	8.9
(41,223)	Demand on Collection Fund	(44,349)	17.6
(62,169)	Specific Government Grants	(66,625)	26.4
(14,075)	Capital Grants	(12,990)	5.2
(3,681)	Capital Receipts	(8,022)	3.2
(202)	Interest and investment income	(502)	0.2
(41,417)	Income from Fees & Charges	(41,157)	16.3
(244,187)		(252,125)	100.0

How it was spent:

2016/17 £'000	Gross Expenditure	2017/18 £'000	%
113,923	Children & Adult Services	115,045	49.4
29,504	Economic Growth Group	23,996	10.3
32,442	Neighbourhood Services & Resources	93,380	40.1
0	Other	606	0.3
175,869		233,027	100.0
220	Precepts & Levies	258	
6,387	Interest Payable	6,403	
4,120	IAS 19 Pension cost adjustment	3,820	
6,316	Amount of non-current assets written off on disposal	8,446	
1,852	Investment property expenditure and change in fair value	340	
680	Other	867	
19,575		20,134	
195,444	Total Expenditure	253,161	
(48,743)	(Surplus)/deficit for year	1,036	

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Sources of Funds to meet Capital Expenditure Plans

The total resources available for capital schemes during 2017/18 totalled £58.011m; however not all of the resources were planned to be expended during 2017/18. Some schemes have a build life of longer than one year so the actual planned spend for 2017/18 was £44.982m with an actual spend of £40.431m. The main areas of slippage relates to major projects in Transport and Housing as well as Ingenium Parc. The slippage into 2018/19 will be financed by supported and unsupported borrowing, grants carried forward, Usable Capital Receipts and Revenue and Capital Contributions.

Capital expenditure 2017/18	Capital Spend Available	Planned Spending 2017/18	Actual	Approved Capital Spend Carried Forward
	£'000	£'000	£'000	£'000
Children & Adult Services	7,287	3,227	3,554	3,733
Economic Growth Group	18,734	14,854	10,587	8,147
Neighbourhood Services & Resources	31,569	26,480	25,869	5,700
Leased Assets	421	421	421	0
Total	58,011	44,982	40,431	17,580
Financed by				
**Corporate Unsupported Borrowing			2,007	
Departmental Unsupported Borrowing			3,416	
Capital Grants			13,349	
Housing Revenue Contributions			13,424	
Capital Contributions			1,716	
Housing Revenue Account Capital Receipts			985	
General Fund Capital Receipts			5,533	
Total			40,431	

** Unsupported Borrowing has no support through the Revenue Support Grant

The following is a list of the major items of capital expenditure incurred during the year:

	£'000
Community Assets Improvements	89
Highways & Transport Infrastructure	8,126
Housing Stock - Improvements	15,634
Investment Properties	567
Operational Buildings - Improvements	10,315
Revenue Expenditure Funded from Capital Under Statute (REFCUS)	4,419
Development Services	326
Children's Services Improvements to Schools	536
Vehicles, Plant & Equipment	421
Total	40,431

The Council is also committed to make payments estimated at £52.227m over the remaining term of the 25 year contract in respect of its PFI scheme (the Education Village and Harrowgate Hill Primary School). These became operational in March 2006 and August 2005 respectively. Both are part of the approved funding of £34.900m by the Department for Education. A recognition of the long-term contract entered into with partners Kajima Darlington Schools Limited can be found in Note 32 in the Notes to the Financial Statements and the liability relating to this contract can be found on the Balance Sheet.

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Four Year Capital Programme

The Council continues to deliver a significant capital investment programme in the main funded from the Housing Revenue Account and external funding which is targeted at specific schemes and programmes such as Transport and Schools. In addition there are a number of schemes financed from the Council's own resources.

The Council's 4 year capital programme and its funding can be summarised as follows:

Capital Expenditure and Funding

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Capital Expenditure and funding					
Children, Families and Learning	142	142	142	142	568
Housing (HRA)	15,181	11,038	10,241	10,013	46,473
Transport	5,789	4,139	2,284	2,284	14,496
Other Capital Programmes	804	804	804	804	3,216
Council Funded Schemes	3,511	1,486	1,663	150	6,810
Total Spending Plans	25,427	17,609	15,134	13,393	71,563
Resources					
Capital Grants	6,735	5,085	3,230	3,230	18,280
HRA Revenue Contributions	6,289	6,058	6,239	6,499	25,085
HRA Investment Fund	8,694	4,780	3,780	3,280	20,534
HRA Capital Receipts	198	200	222	234	854
Corporate Resources	3,511	1,486	1,663	150	6,810
Total Resources	25,427	17,609	15,134	13,393	71,563

Balance Sheet

The Council's summarised Balance Sheet is shown below:

	As at 31 March 2017 £m	As at 31 March 2018 £m
Non-current assets	321	363
Net current assets - debtors, stock, cash and short term investments less short term creditors and liabilities	5	(14)
Long Term Liabilities and Provisions	(294)	(317)
Total Net Assets	32	32
Represented by:		
Usable reserves	64	66
Unusable reserves	(32)	(34)
Total Reserves	32	32

5 Principal Risks and Uncertainties

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 CIPFA / SOLACE Framework of Corporate Governance.

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, are identified. These risks are plotted on to a standard likelihood and impact matrix with reference to management controls in place and working. The shaded part of the matrix signifies the area above the 'risk appetite line'. Risks in this region require further specific management i.e. are priorities for improvement that have an appropriate improvement action plan. A risk matrix is shown below with the current Council Corporate risks that are above the 'risk appetite line'.

RISK MATRIX

CORPORATE

LIKELIHOOD	A Very High				
	B High				
	C Significant			5, 16	
	D Low				
	E Very Low				
	F Almost Impossible				
		IV Negligible	III Marginal	II Critical	I Catastrophic
IMPACT					

There are 2 corporate risks that are above the 'risk appetite line' and are further explained below.

Corporate risk 5 - Council unable to meet its obligations under information governance agenda

- As reported to the September 2017 Audit Committee, the Council continues to make progress on the implementation of the information governance programme. Recent work includes appointment of a Data Protection Officer in line with the new General Data Protection Regulations (GDPR); ongoing development of a compliance programme for GDPR; face-to-face information security and update sessions with senior management teams; continued adoption of the corporate secure information sharing and collaboration system across services; progress on service based information risk assessments and associated action plans; achieving our target for the completion of on-line mandatory information governance training courses. The areas of highest priority in the information governance programme are the completion of the revised risk assessments and the timely delivery of the associated improvement action plans; effectively communicating and embedding the revised incident management process across all services; the effective and timely implementation of the GDPR compliance programme; and approval to connect to the Health and Social Care Network (HSCN).

Corporate risk 16 - Children's Services unable to exit DfE intervention arrangements following Ofsted's "Inadequate" judgement owing to failure to achieve the necessary service improvements

- Children's Services Improvement Plan – this was fully reviewed and rewritten, following the DfE Review in June 2017, with a continued focus on embedding change and quality of practice. The feedback from the fifth and final monitoring visit undertaken by Ofsted in September 2017 was very positive in terms of the trajectory and the progress made. Inspectors confirmed that services were compliant in required areas, therefore whilst the risk remains, it has been reduced from High to Significant. Children's Services are now in readiness for the re-inspection

6 Significant Areas with Financial Implications

Pension Liabilities

Following the implementation of IAS 19, the accounts show the benefit entitlement earned by employees of the Local Government Pension Scheme in the relevant year rather than the charges to revenue based on employer's contributions payable and payments to pensioners in the year. The effect on the Balance Sheet is to reduce the net worth of the Council by the IAS 19 pension liability of £168.400m (in 2016/17 the IAS 19 pension liability was £156.440m). The Council's Pension fund has to be revalued every 3 years to set future contribution rates and subsequent to the last full actuarial valuation date of 31 March 2016 the deficit is to be recovered over a period of 21 years, as agreed by the Pension Fund Administering Authority with the Actuary. Further information is available in Note 37 in the Notes to the Financial Statements.

Business Rates Retention Scheme

From 1 April 2013 the funding regime for local authorities changed, whereby the Council no longer collected NNDR on behalf of Central Government as from now on the income is shared between Central Government (50%), the Council (49%) and the major precepting authority (Durham & Darlington Fire and Rescue) (1%). This change affects the retention of that income collected and also carries a risk to the Council for failure to collect rates in comparison with a pre-determined 'start-up' funding assessment.

The main aim of the scheme is to give councils greater incentive to grow businesses in their area, although it does, however, also increase the financial risk due to non-collection and the volatility of the NNDR tax base.

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by the Valuation Office Agency (VOA) and hence business rates outstanding as at 31 March 2018. As such the Council is required to make a provision for these amounts. Appeals are charged and provided for in proportion of the precepting shares. Due to the 2017 Revaluation the total provision charged to the collection fund for 2017/18 has been reviewed and increased to £2.151m.

Treasury Management

On 28 February 2017 the Council approved the Treasury Management Strategy for 2017/18. Treasury management performance is reported to Cabinet and Council with detailed reviews being undertaken by Audit Committee.

With regards treasury management, the financial year 2017/18 presented similar circumstances to previous years. Investments continued to be made only where there was low risk, for the Council this manifested itself in the continuing reliance on internal borrowing (reduced external investments and using the money to pay for capital expenditure rather than borrowing). However some £25.000m of this was externalised in order to invest in Property Funds. The remaining Internal borrowing still had a positive effect on the MTFP's financing costs as generally investment rates are lower than borrowing rates and there would have been a cost of carrying those investments in addition to any counterparty risk there might have been.

During 2017/18 the Council complied with its legislative and regulatory requirements. The need for borrowing was only increased for capital purposes.

At 31 March 2018, the Council's external debt was £160.161m which is £33.000m more than the previous year. The average interest rate for borrowing was down to 3.84% from 4.30% in 2016/17. Investments totalled £52.433m at 31 March 2018 (£21.014m at 31 March 2017) earning interest of 0.31% on short term cash investments and 0.61% on longer term cash investments. Included in the total investments figure were Property Fund units of £29.433M which provided an annualised net return of 2.27% after initial entry fees.

7 Explanation of the Accounting Statements

This Statement of Accounts has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom' (the code) which defines proper accounting practices for local authorities in England and also complies with the Accounts and Audit Regulations 2015. The code is based on International Financial Reporting Standards (IFRS).

Darlington Borough Council's accounts for the year ended 31 March 2018 are set out in the following pages and a glossary of terms is provided on pages 76 to 86.

Movement in Reserves Statement (page 15)

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net (Increase) / Decrease before Transfers (from)/to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Comprehensive Income and Expenditure Statement (page 16)

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet (page 17)

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example, the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Cash Flow Statement (page 18)

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Expenditure and Funding Analysis (page 20)

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

The Supplementary Financial Statements are as follows: (page 66 - 72)

Housing Revenue Account (page 66)

The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989 (England and Wales).

Collection Fund (page 71)

The Collection Fund Statement is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund in accordance with section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992). The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

Group Accounts

There are a number of criteria by which the Council must determine whether its interests in associates, joint ventures and joint arrangements are significant enough to be included in the Council's consolidated accounts. After consideration of these criteria the Council has determined that it does not have any material interests and consequently no group accounts have been prepared.

The Notes to these financial statements provide more detail about the Council's accounting policies and individual transactions.

Statement of Responsibilities for the Statement of Accounts of Darlington Borough Council

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council with effect from 1 June, 2018 that officer is the Assistant Director, Resources whereas previously it had been the Director Of Neighbourhood Services and Resources;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets; and
- approve the Statement of Accounts.

The Assistant Director, Resources' Responsibilities

The Assistant Director, Resources is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Assistant Director, Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Local Authority Code.

The Assistant Director, Resources has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Director / Assistant Director's Statement

I certify that this Statement of Accounts has been prepared in accordance with the statutory requirements and proper accounting practices. It presents a true and fair view of the Council's financial position as at 31 March 2018 and the income and expenditure for the year ended 31 March 2018.



Dated: 31/05/2018

Paul Wildsmith
Director of Neighbourhood Services & Resources

Recertified

Dated:

Elizabeth Davison
Assistant Director, Resources

Certification of the Statement of Accounts

As Chair of the Audit Committee meeting held on 26 July 2018, I hereby acknowledge that the Statement of Accounts for 2017/18 has been considered and approved by this Committee, in accordance with the Accounts and Audit (England) Regulations 2015, Regulation 8(3).

_____ Dated: _____

Councillor Paul Baldwin - Chair of Audit Committee

Movement In Reserves Statement for Darlington Borough Council for the year ended 31 March 2018

	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
Balance at 31 March 2016	(21,227)	(15,162)	(16,493)	(2,386)	(10,500)	(65,768)	21,760	(44,008)
<u>Movement in reserves during 2016/17</u>								
Deficit/(Surplus) on the Provision of Services	10,013	0	(58,756)	0	0	(48,743)	0	(48,743)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	19,598	19,598
Total Comprehensive Income and Expenditure	10,013	0	(58,756)	0	0	(48,743)	19,598	(29,145)
Adjustments between accounting basis and funding basis under regulations (Note 5)	(7,483)	0	59,324	(896)	(760)	50,185	(50,185)	0
Net (Increase)/decrease before Transfers (to)/from Earmarked Reserves	2,530	0	568	(896)	(760)	1,442	(30,587)	(29,145)
Transfers from/(to) Earmarked Reserves (Note 6)	1,361	(1,361)	0	0	0	0	0	0
Decrease/(Increase) in 2016/17	3,891	(1,361)	568	(896)	(760)	1,442	(30,587)	(29,145)
Balance at 31 March 2017 carried forward	(17,336)	(16,523)	(15,925)	(3,282)	(11,260)	(64,326)	(8,827)	(73,153)
<u>Movement in reserves during 2017/18</u>								
Deficit/(Surplus) on the Provision of Services	3,712	0	(2,676)	0	0	1,036	0	1,036
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	5,494	5,494
Total Comprehensive Income and Expenditure	3,712	0	(2,676)	0	0	1,036	5,494	6,530
Adjustments between accounting basis and funding basis under regulations (Note 5)	(6,309)	0	4,717	(637)	(583)	(2,812)	2,812	0
Net (Increase)/decrease before Transfers (to)/from Earmarked Reserves	(2,597)	0	2,041	(637)	(583)	(1,776)	8,306	6,530
Transfers (to)/from Earmarked Reserves (Note 6)	(830)	830	0	0	0	0	0	0
(Increase)/decrease in 2017/18	(3,427)	830	2,041	(637)	(583)	(1,776)	8,306	6,530
Balance at 31 March 2018 carried forward	(20,763)	(15,693)	(13,884)	(3,919)	(11,843)	(66,102)	(521)	(66,623)

The 2016/17 Movement in Reserves Statement has been restated and is further explained in note 41

**Comprehensive
Income and Expenditure Statement for Darlington Borough Council for the year ended 31 March
2018**

Gross Expenditure £'000	Restated 2016/17			Note	2017/18		
	Gross Income £'000	Net Expenditure /(Income) £'000			Gross Expenditure £'000	Gross Income £'000	Net Expenditure /(Income) £'000
113,923	(58,872)	55,051	Children & Adult Services	3	115,045	(61,846)	53,199
29,504	(8,180)	21,324	Economic Growth Group	3	23,996	(8,242)	15,754
32,442	(77,854)	(45,412)	Neighbourhood Services & Resources	3	93,380	(78,904)	14,476
0	(341)	(341)	Other	3	606	0	606
175,869	(145,247)	30,622	Cost of Services		233,027	(148,992)	84,035
900	0	900	Other operating expenditure	7	1,125	0	1,125
6,316	(3,681)	2,635	Losses/(Gains) on the disposal of non-current assets	7	8,446	(8,022)	424
12,359	(2,106)	10,253	Financing and investment income and expenditure	9	10,563	(2,111)	8,452
0	(93,153)	(93,153)	Taxation and non-specific grant income	10	0	(93,000)	(93,000)
195,444	(244,187)	(48,743)	(Surplus)/deficit on Provision of Services		253,161	(252,125)	1,036
		(6,785)	Surplus on revaluation of Property, Plant and Equipment assets				(6,127)
		26,370	Actuarial losses on pensions assets/liabilities	37			10,510
		13	Impairment losses on non-current assets charged to the revaluation reserve				74
		0	Deficit on the revaluation of available-for-sale financial assets	38			1,037
		19,598	Other Comprehensive Income and Expenditure				5,494
		(29,145)	Total Comprehensive Income and Expenditure				6,530

The 2016/17 Comprehensive Income and Expenditure Statement has been restated due to the Direct Labour Organisations (DLO) income and expenditure being excluded as it was already reflected in the Client accounts although this has no impact on the overall position.

The 2016/17 Comprehensive Income and Expenditure statement has been restated due to an amendment to council dwellings depreciation that is further explained in Note 41

Balance Sheet of Darlington Borough Council as at 31 March 2018

Restated As at 31 March 2017 £'000		As at 31 March 2018 £'000	Notes
348,749	Property, Plant and Equipment	355,741	16
8,831	Investment Properties	9,073	17
3,483	Heritage Assets	3,483	18
0	Long Term Investments	28,396	38
1,253	Long Term Debtors	1,547	38
<hr/>		<hr/>	
362,316	Total Long Term Assets	398,240	
10,014	Short Term Investments	2,001	38
266	Inventories	265	20
19,339	Short Term Debtors	20,458	22
9,910	Cash and Cash Equivalents	23,209	23
280	Assets Held For Sale	280	
<hr/>		<hr/>	
39,809	Total Current Assets	46,213	
(8,413)	Short Term Borrowing	(30,039)	38
(25,680)	Short Term Creditors	(29,478)	24
(577)	Short Term Provisions	(1,054)	15
<hr/>		<hr/>	
(34,670)	Total Current Liabilities	(60,571)	
(13,825)	Long Term Creditors	(12,653)	38
(1,167)	Long Term Provisions	(999)	25
(121,222)	Long Term Borrowing	(132,722)	38
(156,440)	Other Long Term Liabilities	(168,400)	37
(1,648)	Capital Grants Receipts In Advance	(2,485)	31
<hr/>		<hr/>	
(294,302)	Total Long Term Liabilities	(317,259)	
<hr/>		<hr/>	
73,153	Net Assets	66,623	
64,326	Usable Reserves	66,102	28
8,827	Unusable Reserves	521	29
<hr/>		<hr/>	
73,153	Total Reserves	66,623	

The Balance Sheet has been restated in 2016/17 due to an amendment to Property, Plant & Equipment which is further explained in Note 41 to the Accounts

Cash Flow Statement for Darlington Borough Council for the year ended 31 March 2018

Restated 2016/17 £'000		2017/18 £'000
48,743	Surplus/(deficit) on the provision of services	(1,037)
(22,549)	Adjustments to net surplus on the provision of services for non-cash movements	37,692
(18,215)	Adjustments for items included in the net (deficit) on the provision of services that are investing and financing activities	(23,670)
7,979	Net cash flow from Operating Activities	12,985
	Investing Activities	
(31,811)	Purchase of property, plant and equipment and investment property	(35,659)
8,000	Purchase of short term and long term investments	(21,433)
3,001	Proceeds from the sale of property, plant and equipment and investment property	8,022
15,702	Capital grants received	16,485
(5,108)	Net cash flow from Investing activities	(32,585)
	Financing Activities	
2,003	Cash receipts of short and long term borrowing	46,000
649	Billing Authorities - Council Tax and NNDR adjustments	1,140
(1,213)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-Balance Sheet PFI contracts	(1,192)
(5,000)	Repayments of short and long term borrowing	(13,000)
(133)	Other payments for financing activities	(49)
(3,694)	Net cash flow from Financing Activities	32,899
(823)	Net decrease in cash and cash equivalents	13,299
10,733	Cash and cash equivalents at the beginning of the reporting period	9,910
9,910	Cash and cash equivalents at the end of the reporting period (Note 23)	23,209

1 Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2018/19 code although there are no such changes that are expected to have a significant effect on the Council's accounts.

IFRS 9 Financial Instruments, which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables, and available-for-sale to amortised cost and fair value through other comprehensive income respectively based on the contractual cashflows and business model for holding the assets. There are not expected to be any changes in the measurement of financial assets. Assessment of the Council's financial assets does not anticipate any impairment.

IFRS 15 Revenue from Contracts with Customers presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Council does not have any material revenue streams within the scope of the new standard.

IAS 7 Statement of Cash Flows (Disclosure Initiative) will potentially require some additional analysis of Cash Flows from Financing Activities (disclosed in the Cash Flow Statement) in future years. If the standard had applied in 2017/18 there would be no additional disclosure because the Council does not have activities which would require additional disclosure.

IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). This standard is expected to be introduced and become effective from 1 January 2019.

2 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in note 41, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events:

The critical judgements made in the Statement of Accounts are:

- In line with accounting standards and the Code, all maintained schools in the Borough are now considered to be entities controlled by the Council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts.
- Where the land and building assets used by the school are owned by an entity other than the Council, school or school Governing Body then it is not included on the Council's Balance Sheet.
- As at the 31 March 2018 the Council now only has 1 Voluntary Aided (VA) school and the legal ownership of the school land and buildings rests with the Diocese. The relevant Diocese has granted a licence to the school to use the land and buildings and under this licence arrangement the rights of use of the land and buildings have not been transferred to the school and thus are not included on the Council's Balance Sheet.
- In the current economic climate there is a high degree of uncertainty about the future levels of funding for local government. However the Council has determined that this uncertainty is not yet sufficient to provide an indication that assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Council continues to assess the degree of componentisation within its non-current asset portfolio, as part of the five year rolling programme of non-current asset valuations. On an annual basis the Council will review capital expenditure to assess if any new material components have been added to the Council's non-current asset portfolio.
- Judgement is required to determine whether the Council can be reasonably assured that the conditions of grant and contribution income received have been met before recognising them as income in the Comprehensive Income and Expenditure Statement. Where conditions require specified expenditure to have taken place, the grant monies will not be recognised until this has happened. Equally where conditions specify that a grant or contribution must be re-paid in the event of non-expenditure, the income is not recognised until the conditions of the grant have been met.
- The Council is deemed to control the education services provided under the PFI agreement in the schools and also to control the residual value of the schools at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the Education Village and Harrowgate Hill Primary School which became operational in March 2006 and August 2005 respectively. The Education Village transferred to academy status on 1 April 2012 so has therefore been removed from the Council's Balance Sheet. Harrowgate Hill Primary School is recognised as Property, Plant and Equipment on the Council's Balance Sheet.

3 Expenditure and Funding Analysis

2017/18 Group	Reported for resource management	Adjustment to arrive at the net amount chargeable to the General Fund and HRA Balances	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£'000	£'000	£'000	£'000	£'000
Children & Adult Services	51,591	3,927	55,518	(2,319)	53,199
Economic Growth	6,071	(166)	5,905	9,849	15,754
Neighbourhood Services & Resources	20,503	(4,138)	16,365	(1,889)	14,476
Other	(89)	499	410	196	606
Net Cost of Services	78,076	122	78,198	5,837	84,035
Other income and expenditure	(81,499)	2,745	(78,754)	(4,245)	(82,999)
(Surplus)/deficit on Provision of Services	(3,423)	2,867	(556)	1,592	1,036
Opening General Fund, HRA and Earmarked Reserves Balance at 1 April 2017			(49,784)		
Less deficit on General Fund and HRA Balance in Year			(556)		
Closing General Fund, HRA and Earmarked Reserves Balance at 31 March 2018 *			(50,340)		

* For a split of this balance between the General Fund and the HRA - see the Movement in Reserves Statement.

2016/17 Group	Reported for resource management	Adjustment to arrive at the net amount chargeable to the General Fund and HRA Balances	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£'000	£'000	£'000	£'000	£'000
Children & Adult Services	52,215	4,102	56,317	(1,266)	55,051
Economic Growth	9,985	(369)	9,616	11,708	21,324
Neighbourhood Services & Resources	18,142	(47,815)	(29,673)	(15,739)	(45,412)
Other	349	(690)	(341)	0	(341)
Net Cost of Services	80,691	(44,772)	35,919	(5,297)	30,622
Other income and expenditure	(76,961)	3,357	(73,604)	(5,761)	(79,365)
Deficit/(surplus) on Provision of Services	3,730	(41,415)	(37,685)	(11,058)	(48,743)
Opening General Fund, HRA and Earmarked Reserves Balance at 1 April 2016			(52,882)		
Plus surplus on General Fund and HRA Balance in Year			(37,685)		
Closing General Fund, HRA and Earmarked Reserves Balance at 31 March 2017 *			(90,567)		

* For a split of this balance between the General Fund and the HRA - see the Movement in Reserves Statement.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

3a Note to the Expenditure and Funding Analysis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement	Adjustments between Accounting Basis and Funding Basis			
	2017/18			
2017/18	Adjustments for Capital Purposes	Net change for Pensions Adjustments	Other Differences	Total Adjustments
Group	£'000	£'000	£'000	£'000
Children & Adult Services	792	(1,099)	(2,012)	(2,319)
Economic Growth Group	9,344	(353)	858	9,849
Neighbourhood Services & Resources	2,528	(1,084)	(3,333)	(1,889)
Other	0	166	30	196
Net Cost of Services	12,664	(2,370)	(4,457)	5,837
Other income and expenditure from the Expenditure Funding Analysis	(12,634)	3,820	4,569	(4,245)
Difference between General fund deficit and Comprehensive Income and Expenditure deficit	30	1,450	112	1,592

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement	Adjustments between Accounting Basis and Funding Basis			
	2016/17			
2016/17	Adjustments for Capital Purposes	Net change for Pensions Adjustments	Other Differences	Total Adjustments
Group	£'000	£'000	£'000	£'000
Children & Adult Services	(1,247)	95	(114)	(1,266)
Economic Growth Group	11,678	30	0	11,708
Neighbourhood Services & Resources	(15,824)	85	0	(15,739)
Other	0	0	0	0
Net Cost of Services	(5,393)	210	(114)	(5,297)
Other income and expenditure from the Expenditure Funding Analysis	(10,848)	4,120	967	(5,761)
Difference between General fund (surplus)/deficit and Comprehensive Income and Expenditure deficit	(16,241)	4,330	853	(11,058)

3b Expenditure and income analysed by nature

The Council's expenditure and income is analysed as follows:	Restated	
	2016/17	2017/18
	£'000	£'000
Expenditure		
Employee benefits expenses	70,286	66,575
Other service expenses	142,933	144,686
Depreciation, impairment & other capital charges	(31,378)	25,926
Interest payments	6,387	6,403
Precepts and levies	220	258
Payments to Housing Capital Receipts Pool	680	867
Amounts of non-current assets written off on disposal	6,316	8,446
Total expenditure	195,444	253,161
Income		
Fees, charges and other service income	(66,830)	(70,298)
Capital receipts	(3,681)	(8,022)
Interest and investment income	(202)	(502)
Income from council tax and business rates	(63,012)	(67,805)
Revenue grants and contributions	(96,387)	(92,508)
Capital grants and contributions	(14,075)	(12,990)
Total income	(244,187)	(252,125)
(Deficit)/surplus on the provision of services	(48,743)	1,036

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.059M for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability of £168m to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption as advised by the Actuary would result in a decrease in the pension liability of £8.890m for funded LGPS benefits. However, the assumptions interact in complex ways.
Fair Value Measurements	<p>When the fair value of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs) their fair value is measured using the following valuation techniques: For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date; and for Level 3 inputs, valuations based on; most recent valuations adjusted to current valuation by the use of indexation and impairment review. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values.</p> <p>These judgements typically include considerations such as uncertainty and risk. Changes in assumptions could affect the fair value of the Council's assets and liabilities.</p>	<p>The Council uses a combination of indexation techniques, beacon valuations and discounted cash flow (DCF) models to measure the fair value of its Investment Properties, Surplus Assets and Assets Held for Sale under IFRS13 depending on which technique it considers most appropriate. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, occupancy levels, floor area repairs backlogs, beacon classifications and others.</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement of these areas.</p>
Business Rates Appeals	Since the introduction of the Business Rates Retention Scheme effective from 1 April 2013, local authorities are liable for successful appeals against business rates charged to businesses in 2017/18 and earlier years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2018. The estimate has been calculated using the latest Valuation Office ratings list of appeals and the analysis of successful appeals to date. The Council's share (49%) of the business rate appeals provision at this date amounted to £0.249m which is a reduction of £0.270m compared to the previous year. Following the 2017 revaluation a new check, challenge, appeal process has been introduced, the impact of which is highly uncertain at the present moment. A provision of £0.806m has been made for the estimated success of future appeals for losses for the period ended 31/03/18.	An increase over the forthcoming year of 10% in value of successful appeals would have the effect of adding £0.215m to the overall provision.
Arrears	At 31 March 2018, the Council had a balance of sundry debtors of £5.838m. A review of significant balances suggested that an impairment of doubtful debts of 25.57% (£1.493m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts wouldn't require a substantial additional amount to be set aside as an allowance due to the current policy in place.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

5 Adjustments Between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2017/18	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£'000	£'000	£'000	£'000	£'000
Adjustments to the Revenue Resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pension costs (transferred from the Pensions Reserve)	(1,378)	(72)	0	0	0
Financial instruments (transferred to the Financial Instruments Adjustment Account)	(128)	(10)	0	0	0
Council tax and NDR (transfers to Collection Fund)	841	0	0	0	0
Holiday pay (transferred to the Accumulated Absences Reserve)	52	0	0	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(14,043)	(9,254)	0	0	(12,990)
Total Adjustments to Revenue Resources	(14,656)	(9,336)	0	0	(12,990)
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	8,022	0	(8,022)	0	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(867)	0	867	0	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,192	629	0	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	0	13,424	0	0	0
Total Adjustments between Revenue and Capital Resources	8,347	14,053	(7,155)	0	0
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	6,518	0	0
Application of capital grants to finance capital expenditure	0	0	0	0	12,407
Total Adjustments to Capital Resources	0	0	6,518	0	12,407
Total Adjustments	(6,309)	4,717	(637)	0	(583)

2016/17 Comparative Figures	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£'000	£'000	£'000	£'000	£'000
Adjustments to the Revenue Resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pension costs (transferred from the Pensions Reserve)	(4,120)	(210)	0	0	0
Financial instruments (to/(from) the Financial Instruments Adjustment Account)	13	(4)	0	0	0
Council tax and NDR (transfers from Collection Fund)	(296)	0	0	0	0
Holiday pay (transferred to the Accumulated Absences Reserve)	114	0	0	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(8,279)	1,969	0	0	(14,075)
Total Adjustments to Revenue Resources	(12,568)	1,755	0	0	(14,075)
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	3,681	0	(3,681)	0	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(681)	0	681	0	0
Posting of HRA resources from revenue to the Major Repairs Reserve	0	45,197	0	36,369	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,213	629	0	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	872	11,743	0	0	0
Total Adjustments between Revenue and Capital Resources	5,085	57,569	(3,000)	36,369	0
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	2,105	0	0
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	(36,369)	0
Application of capital grants to finance capital expenditure	0	0	0	0	13,315
Total Adjustments to Capital Resources	0	0	2,105	(36,369)	13,315
Total Adjustments	(7,483)	59,324	(895)	0	(760)

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

6 Transfers to / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back to earmarked reserves to meet General Fund and HRA expenditure in 2017/18.

	Balance at 31 March 2016 £'000	Transfers Out 2016/17 £'000	Transfers In 2016/17 £'000	Balance at 31 March 2017 £'000	Transfers Out 2017/18 £'000	Transfers In 2017/18 £'000	Balance at 31 March 2018 £'000
General Fund	21,227	(3,891)	0	17,336	(1,898)	5,325	20,763
	21,227	(3,891)	0	17,336	(1,898)	5,325	20,763
Earmarked Reserves:							
Achieving Real Change for Communities	1,000	0	0	1,000	(1,000)	0	0
Balances held by schools under scheme of delegation	1,397	(1,395)	959	961	(959)	706	708
Blackwell Pensions Reserve	27	0	12	39	0	6	45
Building Control	(260)	0	55	(205)	0	74	(131)
Civic Theatre Restoration Levy	29	(363)	36	(298)	(498)	0	(796)
Collection Fund Reserve	1,400	(1,241)	2,040	2,199	(1,158)	2,327	3,368
Crematorium - Mercury Abatement Reserve Additional Fees	0	0	87	87	0	0	87
Crematorium Refurbishment Fund	65	0	26	91	(106)	28	13
Dedicated Schools Grant Reserve	0	0	0	0	(1,239)	0	(1,239)
Digital Apprenticeship Services Account	0	0	0	0	0	132	132
Direct Payments Contingency Reserve	0	0	26	26	0	95	121
Dolphin Centre Planned Maintenance	91	(123)	32	0	0	32	32
Earmarked Departmental Reserves	1,436	(1,436)	1,745	1,745	(1,745)	1,898	1,898
Eastbourne 3G Playing Pitch Sinking Fund	0	0	11	11	0	15	26
Enterprise Zone NNDR	0	0	193	193	0	203	396
Experience Darlington	0	0	0	0	0	140	140
Former Blackwell Golf Club Grounds	16	(12)	0	4	0	2	6
ICT Infrastructure	482	0	0	482	0	161	643
Insurance Fund	1,442	0	668	2,110	(507)	491	2,094
Land Charges Reserve	44	(44)	0	0	0	0	0
LDF Public Enquiry	80	0	0	80	0	0	80
LPSA Reserve	(25)	(7)	0	(32)	(25)	0	(57)
Mercury Abatement Fund	381	(42)	84	423	(55)	264	632
Organisational Headroom (Project Preparation)	0	0	100	100	(10)	0	90
Public Health Reserve	514	(514)	511	511	(39)	0	472
Redundancy & Decommissioning Reserve	848	(1,902)	2,028	974	0	0	974
Revenue Contribution to Capital Outlay	2,145	(788)	1,393	2,750	(2,143)	1,268	1,875
Revenue Grants Unapplied	4,051	(4,051)	3,242	3,242	(3,242)	3,819	3,819
Ring-fenced Planning Fees	0	0	0	0	0	58	58
Street Scene Volunteering	0	0	0	0	(17)	124	107
Traffic Signal Replacements Reserve	0	0	30	30	0	70	100
	15,163	(11,918)	13,278	16,523	(12,743)	11,913	15,693
Housing Revenue Account	16,493	(568)	0	15,925	(2,041)	0	13,884
	16,493	(568)	0	15,925	(2,041)	0	13,884

7 Other Operating Expenditure

	2016/17 £'000	2017/18 £'000
Parish Council precepts	119	156
Levies	101	102
Payments to the Government Housing Capital Receipts Pool	680	867
Losses on the disposal of non-current assets	2,635	424
Total	3,535	1,549

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

8 Officers' Remuneration

8 a) Officer Remuneration in Bands

The number of employees in each salary band whose remuneration was £50,000 or more are set out below. Calculations are based on all sums paid to or receivable by an employee and sums due by way of taxable expenses, allowances and the monetary value of any other benefits received other than in cash. Pension contributions payable by either employee or employer are excluded.

Remuneration band	2016/17				2017/18			
	Number of employees			No. of redundancies included in total	Number of employees			No. of redundancies included in total
	Schools	Non - schools	Total		Schools	Non - schools	Total	
£50,000 - £54,999	4	8	12	0	3	10	13	0
£55,000 - £59,999	3	5	8	1	2	5	7	0
£60,000 - £64,999	0	3	3	1	1	2	3	1
£65,000 - £69,999	1	3	4	0	1	2	3	1
£70,000 - £74,999	0	1	1	1	1	3	4	1
£75,000 - £79,999	0	2	2	2	0	2	2	1
£80,000 - £84,999	2	3	5	0	1	2	3	1
£85,000 - £89,999	0	3	3	0	0	6	6	2
£90,000 - £94,999	0	1	1	1	0	0	0	0
£95,000 - £99,999	0	1	1	0	1	1	2	1
£100,000 - £104,999	0	1	1	1	0	0	0	0
£105,000 - £109,999	0	0	0	0	0	0	0	0
£110,000 - £114,999	0	0	0	0	0	1	1	1
£115,000 - £119,999	0	2	2	0	0	2	2	0
£120,000 - £124,999	0	1	1	0	0	1	1	0
£125,000 - £129,999	0	0	0	0	0	0	0	0
£130,000 - £134,999	0	0	0	0	0	1	1	1
£135,000 - £139,999	0	0	0	0	0	0	0	0
£140,000 - £144,999	0	0	0	0	0	0	0	0
£145,000 - £149,999	0	1	1	1	0	0	0	0
£150,000 +	0	1	1	0	0	1	1	1
	10	36	46	8	10	39	49	11

N.B. Senior employees are included above and have been shown in detail below.

8 b) Disclosure of Remuneration for Senior Employees 2017/18

	Post Holder (required if salary exceeds £150,000)	Salary	Expenses Allowances	Retirement Package	Total Remuneration (excl pension contributions)	Employer pension contributions	Total Remuneration (incl pension contributions)
		£	£	£	£	£	£
Chief Executive	Ada Burns	153,750	0	201,000	354,750	32,902	387,652
Director of Neighbourhood Services and Resources		132,397	0	0	132,397	26,333	158,730
Director of Economic Growth		123,051	0	0	123,051	25,263	148,314
Director of Children and Adult Services		118,051	0	0	118,051	25,263	143,314
Director of Public Health		112,321	0	0	112,321	13,949	126,270

The Chief Executive retired on 30 June 2018 as part of a restructure of the Senior Management Team.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

Disclosure of Remuneration for Senior Employees 2016/17

	Post Holder (required if salary exceeds £150,000)	Salary	Expenses Allowances	Retirement Package	Total Remuneration (excl pension contributions)	Employer pension contributions	Total Remuneration (incl pension contributions)
		£	£	£	£	£	£
Chief Executive	Ada Burns	152,227	0	0	152,227	28,162	180,389
Director of Neighbourhood Services and Resources		121,882	0	0	121,882	22,548	144,430
Director of Economic Growth		116,882	0	0	116,882	21,623	138,505
Director of Children and Adult Services		115,970	0	0	115,970	21,455	137,425
Director of Public Health		97,000	0	0	97,000	13,871	110,871

8 c) Exit Packages

The costs included within the exit packages table below include termination benefits, all relevant redundancy costs including compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex gratia payments and other departure costs.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
							£	£
£0 - £20,000	55	15	37	29	92	44	505,329	254,843
£20,001 - £40,000	4	0	24	7	28	7	759,044	189,248
£40,001 - £60,000	1	1	13	3	14	4	679,196	195,454
£60,001 - £80,000	3	0	3	2	6	2	399,462	142,265
£80,001 - £100,000	0	1	2	1	2	2	169,090	163,655
£100,001 - £150,000	0	0	1	0	1	0	128,058	0
£150,001 +	0	0	0	1	0	1	0	201,000
Total	63	17	80	43	143	60	2,640,179	1,146,465

9 Financing and Investment Income and Expenditure

	Restated	
	2016/17 £'000	2017/18 £'000
Interest payable and similar charges	6,387	6,403
Pensions interest cost and expected return on pensions assets (Note 37)	4,120	3,820
Interest receivable and similar income	(202)	(502)
Income and expenditure in relation to investment properties and changes in their fair value (Note 17)	1,024	(155)
Gains on trading operations	(1,076)	(1,114)
Total	10,253	8,452

10 Taxation and Non Specific Grant Income

	2016/17 £'000	2017/18 £'000
Council tax income	(41,223)	(44,349)
Business rates income	(21,789)	(23,456)
Non-ringfenced government grants	(16,066)	(12,205)
Capital grants and contributions	(14,075)	(12,990)
Total	(93,153)	(93,000)

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

11 Material Items of Income and Expense

There are no material items of Income and Expenditure that are not disclosed elsewhere within the Statement of Accounts.

12 Trading Operations

The Council operates a number of trading operations, details of which are:

	2016/17		2017/18	
	Turnover	Surplus / (Deficit)	Turnover	Surplus / (Deficit)
	£'000	£'000	£'000	£'000
Building Cleaning	659	(87)	584	(73)
Construction	11,155	595	13,248	643
Catering	1,044	108	1,170	60
Grounds Maintenance	256	14	228	8
Highways and Sewerage	8,005	551	9,147	510
Maintenance	3,481	539	3,329	343
School Meals-Best Value	805	(34)	709	(24)
Surplus on Trading Accounts	25,405	1,686	28,415	1,467

Building Cleaning - The service covers the internal cleaning of both the Council's property portfolio as well as a number of schools and academies.

Construction - Construction deals with all major building works carried out by the direct labour organisation (DLO). Works carried out is for both internal and external clients.

Catering - The catering service operates from the Dolphin Centre and provides catering and bar provision for the general public at this venue.

Grounds Maintenance - Surplus bedding plant stock grown at the Council's Nursery is sold to various external clients including local authorities and other public bodies.

Highways and Sewerage - Routine road and street lighting maintenance and other scheme works to the road network are carried out by the direct labour organisation in liaison with engineering services.

Maintenance - Day to day repairs and cyclical maintenance carried out to the Council's housing stock.

School Meals-Best Value - This service provides school meals for a number of schools and academies throughout the borough as well as providing meals for extra care homes operated by Housing Services.

13 External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Council's external auditors:

	2016/17 £'000	2017/18 £'000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	93	93
Fees payable for the certification of grant claims and returns for the year	12	9
Fees payable in respect of other services provided during the year	6	11
Total	111	113

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

14 Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2017. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school/nursery provider.

Details of the deployment of DSG receivable for 2017/18 are as follows:

	Central Expenditure £'000	ISB £'000	Total £'000
Final DSG for 2017/18 before Academy recoupment			79,415
Academy figure recouped 2017/18			(56,882)
Total DSG after academy recoupment for 2017/18			22,533
Final Early Years Adjustment 2016/17 (DSG received 2017/18)			(122)
Sub-total			22,411
Plus Brought Forward from 2016/17			238
Carry Forward to 2018/19 agreed in advance			0
Final DSG for distribution in 2017/18			22,649
Agreed initial budget distribution in 2017/18 (note a)	9,749	69,908	79,657
In Year Adjustments (note b)	118	(57,126)	(57,008)
Final budget distribution for 2017/18	9,867	12,782	22,649
Less actual central expenditure	11,416	0	11,416
Less Actual ISB deployed to Schools	0	12,472	12,472
Carry Forward to 2018/19	(1,549)	310	(1,239)

Notes:

a. Initial budget allocation as per Section 251 statement (adjusted for additional academy place funding), based on indicative DSG allocation received December 2016

b. Includes carry forward from 2016/17 and DSG adjustments within the final allocation, for recoupment and Early Years

15 Short Term Provisions

	NNDR Appeals £'000	Other Provisions £'000	Total £'000
Balance at 1 April 2017	(519)	(58)	(577)
Additional provisions made in 2017/18	(540)	0	(540)
Unused amounts reversed in 2017/18	5	58	63
Balance at 31 March 2018	(1,054)	0	(1,054)

NNDR appeals - A provision was created for potential outstanding appeals against NNDR ratings that should be settled in the next year. The provision is a requirement due to the change in legislation in the distribution of income of the new Business Rates Retention scheme as it used to be the responsibility of Central Government.

Trading Operations - For all work carried out where interim valuations have been made and which are incomplete at the end of each financial year, forecasts are made of the final values and costs. These forecasts are then used to determine the likely profit or loss for each job with the resultant losses being provided for in the accounts. The provision of £58,000 was reversed at the beginning of the financial year and the accounting position resumes to reflect the actual results.

16 Property, Plant and Equipment

Movements in 2017/18:	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus	Total Property, Plant & Equipment	PFI Assets Included in Property, Plant & Equipment
Cost or Valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2017	147,900	92,739	31,889	91,203	9,148	16,072	62	389,013	8,384
Additions	15,667	10,788	421	8,114	89	0	0	35,079	12
Accumulated depreciation & impairment Written Off to Gross Carrying Amount	(2,684)	(3,433)	0	0	0	0	0	(6,117)	0
Revaluation increase recognised in the Revaluation Reserve	978	5,149	0	0	0	0	0	6,127	0
Revaluation decreases recognised in the Deficit on the Provision of Services	(6,564)	(10,386)	0	0	0	0	0	(16,950)	0
Derecognition - disposals	(2,035)	(6,564)	(571)	(119)	0	0	0	(9,289)	0
Other movements in cost or valuation	185	13,714	0	0	0	(13,899)	0	0	0
At 31 March 2018	153,447	102,007	31,739	99,198	9,237	2,173	62	397,863	8,396
Accumulated Depreciation and Impairment									
At 1 April 2017	197	3,245	15,621	20,840	206	143	12	40,264	285
Depreciation charge	2,413	1,358	1,684	2,726	0	0	0	8,180	148
Depreciation written out to the Surplus on the Provision of Services	(2,430)	(3,178)	0	0	0	0	0	(5,608)	0
Impairment losses recognised in the Revaluation Reserve	0	74	0	0	0	0	0	74	0
Impairment reversals recognised in the Surplus on the Provision of Services	9	43	0	0	0	0	0	52	0
Derecognition - disposals	(53)	(166)	(571)	(52)	0	0	0	(842)	0
Other movements in depreciation and impairment	10	103	0	0	0	(112)	0	1	12
At 31 March 2018	146	1,479	16,734	23,514	206	31	12	42,122	445
Net book value									
at 31 March 2018	153,301	100,528	15,005	75,684	9,031	2,142	50	355,741	7,951
at 31 March 2017	147,703	89,494	16,268	70,363	8,942	15,929	50	348,749	8,099

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

Comparative Movements in 2016/17	Restated Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus	Total Property, Plant & Equipment	PFI Assets Included in Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
At 1 April 2016	123,116	99,485	26,300	83,324	9,159	14,195	35	355,614	5,940
Additions	14,171	1,933	14	7,841	8	7,676	0	31,643	0
Accumulated depreciation & impairment Written Off to Gross Carrying Amount	(279)	(974)	0	0	0	0	0	(1,253)	(98)
Revaluation increase recognised in the Revaluation Reserve	1,077	3,675	0	40	0	0	25	4,817	2,081
Revaluation increases/(decreases) recognised in the Deficit on the Provision of Services	11,091	(8,988)	0	0	0	0	(10)	2,093	410
Derecognition - disposals	(1,322)	(1,716)	(2,242)	0	(18)	(1,000)	0	(6,298)	0
Other movements in cost or valuation	0	(3,078)	7,877	0	0	(4,799)	0	0	0
Adjustments to Financial Management System *	46	2,402	(60)	(2)	(1)	0	12	2,397	51
At 31 March 2017	147,900	92,739	31,889	91,203	9,148	16,072	62	389,013	8,384
Accumulated Depreciation and Impairment									
At 1 April 2016	197	2,946	14,902	18,380	216	0	12	36,653	276
Depreciation charge	4,424	1,150	1,778	2,460	0	143	0	9,955	93
Depreciation written out to the Surplus on the Provision of Services	(4,424)	(961)	0	0	0	0	0	(5,385)	(84)
Impairment losses recognised in the Revaluation Reserve	0	13	0	0	0	0	0	13	0
Impairment reversals recognised in the Surplus on the Provision of Services	0	7	0	0	8	0	0	15	(13)
Derecognition - disposals	0	(17)	(952)	0	(18)	0	0	(987)	0
Other movements in depreciation and impairment	0	107	(107)	0	0	0	0	0	13
At 31 March 2017	197	3,245	15,621	20,840	206	143	12	40,264	285
Net book value									
at 31 March 2017	147,703	89,494	16,268	70,363	8,942	15,929	50	348,749	8,099
at 31 March 2016	122,919	96,539	11,398	64,944	8,943	14,195	23	318,961	5,664

* N.B. Due to an imbalance between the Financial Management System and the Fixed Asset Register a number of adjustments have been made to bring them back into balance.

The council dwellings has been restated in 2016/17 due to an amendment to Property, Plant & Equipment which is further explained in Note 41 to the Accounts

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings - 60 years.
- Other Land and Buildings - over the life of the property as estimated by the valuer. As an indication the majority of buildings are depreciated over 60 years, car parks for 20 years and Community Assets have indefinite lives;
- Vehicles, Furniture & Equipment - between 3 and 12 years
- Plant - over the life of the asset as estimated by the valuer
- Infrastructure Assets - 30 years

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out by external valuers (Kier) with valuations of land and buildings carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are:

- The estimated amount for which a property should exchange on the date of valuation;
- Completion is not unduly delayed with vacant possession;
- The transaction is between a willing buyer and a willing seller;
- The transaction is at arms length with the parties acting knowledgeably, prudently and without compulsion;
- Prior to exchange the property was the subject of proper marketing; and
- The potential for an increase in value as a result of an alternative use is recognised (not applicable for assets valued by Existing Use).

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Assets Under Construction £'000	Surplus £'000	Total Property, Plant & Equipment £'000	PFI Assets Included in Property, Plant & Equipment £'000
Carried at historical cost	0	2,100	15,005	75,684	9,031	2,142	50	104,012	1,304
valued at fair value as at:									
31 March 2017	153,301	34,038	0	0	0	0	0	187,339	6,647
31 March 2016	0	8,509	0	0	0	0	0	8,509	0
31 March 2015	0	14,493	0	0	0	0	0	14,493	0
31 March 2014	0	13,593	0	0	0	0	0	13,593	0
31 March 2013	0	27,795	0	0	0	0	0	27,795	0
Total Cost or Valuation	153,301	100,528	15,005	75,684	9,031	2,142	50	355,741	7,951

Capital Commitments

At 31 March 2018 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment that were budgeted to cost £25.427m in future years, of which £6.735m will be funded from grant, £15.181m from the Housing Revenue Account and £3.511m from corporate resources. Similar commitments at 31 March 2017 were £24.062m. The commitments at 31 March 2018 are:

Scheme	Total Estimate £'000
Housing - new build	8,694
Housing - various other enhancements including heating replacement, Internal planned maintenance & roofing	6,487
Highway maintenance	1,689
Local Growth Fund	1,695
National Productivity Investment Fund	1,519
Integrated Transport	886
Disabled Facilities	804
Economic Growth Investment Fund	1,961
Highways maintenance etc	1,550
School condition allocations	142
	25,427

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

17 Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2016/17 £'000	2017/18 £'000
Rental income from investment property	829	495
Direct operating expenses arising from investment property	(10)	(16)
Net gain	819	479

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	2016/17 £'000	2017/18 £'000
Balance at start of the year	10,507	8,831
Additions:		
Purchases	0	0
Subsequent Expenditure	167	567
Disposals	0	0
Net loss from fair value adjustments	(1,843)	(67)
Transfers from Property, Plant and Equipment	0	0
Adjustment due to historic imbalance	0	(258)
Balance at end of the year	8,831	9,073

Fair Value Hierarchy

All the Council's investment portfolio has been assessed as level 3 for valuation purposes.

18 Heritage Assets

Reconciliation of the Carrying Value of Heritage Assets Held by the Council

	Art Collection £'000	Civic Regalia £'000	Railway Museum £'000	Total Assets £'000
Cost or Valuation				
1 April 2016	758	565	2,160	3,483
Additions	0	0	0	0
31 March 2017	758	565	2,160	3,483
Cost or Valuation				
1 April 2017	758	565	2,160	3,483
Additions	0	0	0	0
31 March 2018	758	565	2,160	3,483

The Council holds a range of heritage assets comprising the Borough Art Collection, the Railway Museum Collection and various pieces of Civic Regalia. The Art Collection has been valued by an external valuer (the majority being valued in 2008) at £0.758m. The Civic Regalia was valued by an external valuer in 2011 at £0.565m. External valuations are reviewed periodically. The Railway Museum Collection is reported in the balance sheet at insurance valuation (based on market values) at £2.160m and is updated annually. In addition, the Council loans certain items from the National Railway Museum with an insurance valuation of £1.500m. Because of the nature of the loan agreement these assets are not included within the Council's Balance Sheet. The Council's heritage asset holdings are substantially static with low numbers of acquisitions or donations and no recent disposals.

Further information

Darlington Borough Art Collection is a collection of artworks with a large variety of subject matter, medium and style. The collection spans over 150 years and features work by local, national and international artists and it has been acquired over many years through donation, bequest and purchase. More details can be found on the Council's website.

The Council owns over 140 items of Civic Regalia ranging from dinner and silverware to the Chains of Office.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

The Railway Museum's existing collections are mostly limited to material illustrating the development and operation of railways in North East England. Although regional in scope, in some areas they are of national importance because of their association with the Stockton & Darlington Railway. Exhibits include a locomotive, wagons, archives, maps, photographs and models/toys. Further information about the collection can be obtained from the Council's website.

19 Impairment Losses

During 2017/18, the Council has recognised impairment losses of £0.636m in relation to its land and buildings.

Where impairment losses are identified, they are initially set against any accumulated gains for each asset held in the Revaluation Reserve. Losses arising from impairments that cannot be absorbed by accumulated revaluation gains are charged to service lines in the Comprehensive Income and Expenditure Statement.

Impairments have been charged as follows:

	31 March 2017 £'000	31 March 2018 £'000
Comprehensive Income and Expenditure Statement		
- Children and Adult Services	290	386
- Economic Growth	44	250
- Neighbourhood Services & Resources	14	0
	348	636

20 Inventories

	Consumable Stores		Maintenance Materials		Client Services Work In Progress		Total	
	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000
	Balance at start of year	118	129	551	130	(76)	7	593
Purchases	810	932	801	1,064	83	0	1,694	1,996
Recognised as an expense in the year	(799)	(936)	(1,222)	(1,061)	0	0	(2,021)	(1,997)
Balance at year-end	129	125	130	133	7	7	266	265

21 Pooled Budgets

The Better Care Fund (BCF) has been established by the Government to support the introduction of a fully integrated health and social care system. Section 75 of the National Health Services Act 2016 gives powers to Local Authorities and Clinical Commissioning Groups (CCG) to establish and maintain pooled funds to support the outcomes of the BCF.

The Council has entered into a pooled budget arrangement with Darlington Clinical Commissioning Group for the provision of health and social care services to meet the needs of the population of the borough of Darlington.

The services being commissioned or provided by the Council or Darlington CCG depend upon the needs of the service recipient. The Council and Darlington CCG has an ongoing Section 75 agreement in place for funding these services and this is reviewed annually.

	2016/17 £'000	2017/18 £'000
Revenue Funding provided to the Pooled Budget		
Darlington Borough Council	80	89
Better Care Funding	2,337	2,379
Darlington Clinical Commissioning Group	809	776
	3,226	3,244
Expenditure met from the Pooled Budget		
Darlington Borough Council	80	89
Better Care Funding	2,064	2,286
Darlington Clinical Commissioning Group	836	884
	2,980	3,259
Net surplus/(deficit) arising on the Pooled Budget during the year	246	(15)
The Revenue deficit has been carried forward to funded from 2018/19 commitments within the BCF.		
Capital Funding provided to the Pooled Budget		
Better Care Funding	740	881
Expenditure	61	0
Net Surplus arising on the Pooled Budget during the year	679	881

22 Short Term Debtors

	As at 31 March 2017 £'000	As at 31 March 2018 £'000
Central government bodies	4,419	1,957
Other local authorities	1,492	906
NHS bodies	(22)	243
Other Entities and Individuals	17,524	17,096
Payments in Advance	563	5,179
Provision for Bad and Doubtful Debts	(4,637)	(4,923)
	19,339	20,458

23 Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

	As at 31 March 2017 £'000	As at 31 March 2018 £'000
Cash held by the Council	145	149
Bank current accounts	(1,235)	2,060
Short-term deposits	11,000	21,000
Total cash and cash equivalents	9,910	23,209

24 Short Term Creditors

	As at 31 March 2017 £'000	As at 31 March 2018 £'000
Central government bodies	(2,839)	(3,578)
Other local authorities	(1,864)	(1,673)
NHS bodies	(329)	(1,476)
Other entities and individuals	(20,648)	(22,751)
Total	(25,680)	(29,478)

25 Long Term Provisions

	Other £'000	Total £'000
Balance at 1 April 2017	(1,167)	(1,167)
Additional provisions made in 2017/18	(508)	(508)
Amounts used in 2017/18	0	0
Unused amounts reversed in 2017/18	676	676
Balance at 31 March 2018	(999)	(999)

Insurance Provision - The Council insures against the risk of claims in respect of personal injury and property loss. These risks are insured externally, however there is a £50,000 excess in respect of each and every claim on the liability policy. The balance of £998,562 on this account represents claims made and still outstanding as at 31 March 2018 which are within these excesses.

26 Leases

Council as Lessee

Finance Leases

The Council currently has one finance lease but the fair value as determined by the external valuer is deemed to be nominal and is recognised as Property, Plant and Equipment on the Council's Balance Sheet. It has an annual lease payment of £2,326.

Operating Leases

The Council has acquired vehicles, furniture and equipment under operating leases. Payments made during the year in respect of these leases amount to £0.468m (£0.482m in 2016/17).

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2017 £'000	31 March 2018 £'000
Not later than 1 year	382	366
Later than 1 year and not later than 5 years	989	815
Later than 5 years	57	14
	1,428	1,195

There are no contingent rents payable in respect of the leases.

The Council has not sub-let any of the vehicles, furniture and equipment under these operating leases.

Council as Lessor

Finance Leases

The Council does not have any leases categorised as Finance Leases in its capacity as Lessor.

Operating Leases

The Council leases various Land and Buildings to third parties under operating leases. The leases are primarily to provide suitable affordable accommodation for local businesses but also includes the lease of buildings that enable the delivery of community services such as Community Centres. During 2017/18 £0.404m (£0.577m in 2016/17) was received by the Council in relation to these leases.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31 March 2017 £'000	31 March 2018 £'000
Not later than 1 year	577	404
Later than 1 year and not later than 5 years	1,135	1,596
Later than 5 years	6,309	6,543
	8,021	8,543

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

27 Contingent Liabilities

At 31 March 2018, the Council had the following contingent liabilities:

During 1992/93 Municipal Mutual Insurance (MMI) ceased accepting new business. MMI and its policyholders, including local authorities, have established a Scheme of Arrangement for the orderly run down of the company. MMI's future liabilities under its old policies cannot be fully quantified until all of the claims, current and yet to be made, have been settled. There is a Scheme of Arrangement in place that if MMI does not have enough assets to meet the claims and liabilities it can clawback from major policy holders part of the claims paid from October 1993.

This scheme was triggered in November 2012 and Darlington Borough Council has paid £0.235m up to 31st March 2018 this represents 25% of claims paid by MMI excluding the first £0.050m of claims. During 2016/17 the Council commissioned a further actuarial report from a firm of advisors, independent of MMI, who estimate at this time that the clawback amount could be as much as 50% of all claims excluding the first £50,000, this could be as much as £0.469m. In addition outstanding claims of £0.155m of which 50% could be borne by the Council. As a result the Council has a contingent liability of £0.311m, this being the 50% that the Council could be liable for (£0.468m + £0.078m) less the amount paid over to MMI to date (£0.235m).

Furthermore, the Council will be liable for 25% of all new claims that have incurred but not yet been reported but this could increase to 50% of all new claims, therefore, a figure for this contingent liability is unknown at this time. It is intended that further Actuarial reports will be commissioned on a regular basis.

Darlington is one of a consortium of partners, forming a Community Interest Company (CIC) Achieving Real Change for Communities (ARCC). The ARCC is a CIC without shareholdings supported by Darlington and 8 other organisations. There is a Deed of Guarantee in place of £14.120m in the event of significant failures in performance of which Darlington's potential liability is £2.450m rising to £3.530m in the unlikely event of failure by the private guarantors to meet their obligations.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

28 Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

	31 March 2017 £'000	31 March 2018 £'000
General Fund	17,336	20,763
Earmarked Reserves	12,319	11,166
Housing Revenue Account	15,925	13,884
Schools Revenue Balances	961	708
Revenue Grant Unapplied	3,242	3,819
Capital Receipts Reserve	2,386	3,919
Capital Grants Unapplied	10,500	11,843
Total Usable Reserves	62,669	66,102

General Fund

Resources available to meet future running costs for services other than council housing.

Earmarked Reserves

Earmarked reserves are shown in Note 6 and are resources set aside for future spending plans.

Housing Revenue Account

Resources available to meet future running costs for social housing.

Schools Revenue Balances

Surplus balances of locally managed schools which are committed to be spent on the education service.

Revenue Grant Unapplied

The balance is in respect of revenue grants that have been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from the grant has not been incurred at the Balance Sheet date.

Capital Receipts Reserve

Proceeds of non-current asset sales available to meet future capital investment.

Capital Grants Unapplied

The balance is in respect of capital grants that have been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from the grant has not been incurred at the Balance Sheet date.

29 Unusable Reserves

	31 March 2017 £'000	31 March 2018 £'000
Revaluation Reserve	31,199	36,537
Capital Adjustment Account	136,010	134,608
Available-for-Sale Financial Instruments Reserve	0	(1,037)
Financial Instruments Adjustment Account	(36)	(174)
Pensions Reserve	(156,440)	(168,400)
Collection Fund Adjustment Account	(1,392)	(552)
Accumulated Absences Account	(513)	(461)
Total Unusable Reserves	8,828	521

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost,
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

	2016/17 £'000	2017/18 £'000
Balance at 1 April	25,138	31,199
Upward revaluation of assets	9,774	8,074
Downward revaluation of assets and impairment losses not charged to the Deficit/(surplus) on the Provision of Services	(4,997)	(1,946)
Adjustment due to imbalance between Financial Management System and Fixed Asset Register	2,048	0
Surplus on revaluation of non-current assets not posted to the Deficit/(surplus) on the Provision of Services	6,825	6,127
Difference between fair value depreciation and historical cost depreciation	(370)	(440)
Accumulated gains on assets sold or scrapped	(394)	(349)
Amount written off to the Capital Adjustment Account	(764)	(790)
Balance at 31 March	31,199	36,537

Capital Adjustment Account (CAA)

The CAA absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets for financing and acquisition, construction or enhancement of those assets under statutory provisions. The CAA is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisation are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The CAA is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The CAA contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The CAA also contains revaluation gains on accumulated Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 5 provides details of the source of all transactions posted to the CAA, apart from those involving the Revaluation Reserve.

	2016/17 £'000	2017/18 £'000
Balance at 1 April	80,611	136,010
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	30,510	(8,744)
Neutralise the impact on the HRA in respect of the depreciation transfer required under the Accounts and Audit (England) Regulations 2011 (Regulation 7(5)(a))	36,368	0
Revaluation losses on Property, Plant and Equipment	(17,559)	(31,355)
Revaluation gains used to reverse previous revaluation losses	19,691	14,148
Revenue expenditure funded from capital under statute	(1,105)	(4,419)
Capital Expenditure classed as De-minimis	(96)	(63)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement.	(5,922)	(8,097)
Adjustment due to imbalance between Financial Management System and Fixed Asset Register	365	0
	62,253	(38,531)
Adjusting amount written out of the Revaluation Reserve	300	366
Net written out amount of the cost of non-current assets consumed in the year	62,553	(38,165)
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	2,105	6,518
Use of the Major Repairs Reserve to finance new capital expenditure	(36,368)	0
Capital grants and contributions credited to the CIES that have been applied to capital financing	1,142	2,658
Application of grants to capital financing from the Capital Grants Unapplied Account	13,353	12,407
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	1,842	1,821
Capital expenditure charged against the General Fund and HRA balances	12,615	13,424
	(5,311)	36,829
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(1,843)	(66)
Balance at 31 March	136,010	134,608

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

Available-for-Sale Financial Instruments Reserve

The Available-for-Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when instruments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and gains are realised.

	2016/17 £'000	2017/18 £'000
Balance at 1st April	0	0
Upward revaluation of Investments	0	0
Downward revaluation of investments not charged to the Deficit on the Provision of Services	0	(1,037)
	0	(1,037)
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	0	0
Balance at 31st March	0	(1,037)

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that is outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2018 will be charged to the General Fund over the next 11 years.

	2016/17 £'000	2017/18 £'000
Balance at 1 April	(45)	(36)
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0	(147)
Proportion of premiums incurred in previous financial years to be charged against the General Fund in accordance with statutory requirements	9	9
Balance at 31 March	(36)	(174)

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2016/17 £'000	2017/18 £'000
Balance at 1 April	(125,740)	(156,440)
Actuarial losses on pensions assets and liabilities	(26,370)	(10,510)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(12,610)	(14,260)
Employer's pension contributions and direct payments to pensioners payable in the year	8,280	12,810
Balance at 31 March	(156,440)	(168,400)

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement (CIES) as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across to the General Fund from the Collection Fund.

	2016/17 £'000	2017/18 £'000
Balance at 1 April	(1,097)	(1,392)
Amount by which council tax and non-domestic rates income credited to the CIES is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(295)	840
Balance at 31 March	(1,392)	(552)

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, for example, annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2016/17 £'000	2017/18 £'000
Balance at 1 April	(627)	(513)
Settlement or cancellation of accrual made at the end of the preceding year	627	513
Amounts accrued at the end of the current year	(513)	(461)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(513)	(461)
Balance at 31 March	(513)	(461)

30 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2016/17 £'000	2017/18 £'000
Opening Capital Financing Requirement	192,146	195,185
Capital Investment		
Property, Plant and Equipment	31,643	35,078
Investment Properties	167	567
Long Term Debtors	1,050	304
Revenue Expenditure Funded from Capital Under Statute	1,105	4,419
Other	131	63
Sources of Finance		
Capital receipts	(2,105)	(6,518)
Government grants and other contributions	(14,495)	(15,065)
Sums set aside from revenue:		
Direct revenue contributions	(12,615)	(13,424)
MRP/loans fund principal	(629)	(629)
Deferred liabilities movement	(1,213)	(1,192)
Closing Capital Financing Requirement	195,185	198,788
Explanation of movements in year		
Minimum Revenue Provision (MRP)	(1,842)	(1,821)
Increase in underlying need to borrowing (unsupported by government financial assistance)	4,881	5,424
Increase in Capital Financing Requirement	3,039	3,603

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

31 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

	2016/17 £'000	2017/18 £'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	13,286	9,094
Capital Grants and Contributions	14,075	12,990
Local Authority Top Up Grant	4,012	6,815
Adult Social Care Grant	0	2,856
New Homes Bonus	2,698	2,279
Business Rates Relief S31 Grant	1,097	1,920
Other	54	278
Local Services Support Grant	29	28
Sub-total	35,251	36,260
Credited to Services		
Rent Allowances and Rent Rebates	37,197	35,963
Dedicated Schools Grant (DSG)	23,261	22,411
Public Health Grant	8,889	8,670
The Private Finance Initiative (PFI)	3,200	3,200
Pupil Premium	1,333	1,012
Adult Education Funding from Schools Funding Agency	711	816
Independent Living Fund	824	797
Access Fund for Sustainable Travel	0	626
Housing Benefit and Localised Council Tax Support Administration Subsidy Funding	664	620
Tackling Troubled Families	515	500
NHS Healthy New Towns	413	360
Syrian Resettlement Programme	250	346
Discretionary Housing Payments	203	293
Sustainable Transport	227	281
16-19 Funding from Education Funding Agency	285	256
Universal Infant Free School Meals	349	251
Youth Justice Grant	222	223
Education Services Grant	322	162
Homelessness Prevention Trailblazers	0	128
Other	1,455	1,057
Sub-total	80,320	77,972
Total	115,571	114,232

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	2016/17 £'000	2017/18 £'000
Capital Grants Receipts in Advance		
Developer Contribution	1,554	2,485
Fair Share Trust	50	0
Safer & Stronger Communities Fund	42	0
Tees Valley Regeneration	2	0
	1,648	2,485

32 Private Finance Initiative

Education PFI Scheme

2017/18 was year 13 of the Council's 25 year PFI scheme for the construction, maintenance and operation of five schools, the Education Village (a federation of schools comprising Springfield, Beaumont Hill and Haughton Schools) and Harrowgate Hill Primary School, which became operational in March 2006 and August 2005 respectively. The Education Village Schools converted to Academy status on 1 April 2012 under the provisions of the Academies Act 2010.

(1) Harrowgate Hill

The Council has certain exclusive use rights for the use of the school during specific times during school terms. The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. The contractor took on the obligation to construct the centres and maintain them in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the centres. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Council for nil consideration. The Council only has rights to terminate the contract if it compensates the contractor in full for costs incurred and future profits that would have been generated over the remaining term of the contract.

(2) Education Village

The Education Village Academy Trust has certain exclusive use rights for the use of the centres by schools during specific times during school terms. The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. The contractor took on the obligation to construct the centres and maintain them in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the centres. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Academy Trust for nil consideration. The Council continues to be the primary contracting party with the contractor but the Academy Trust has taken over a large part of the monitoring responsibilities for the three schools it serves. The payment arrangements are that the Council makes the payment to the contractor and receives the PFI credits and contributions from the schools involved to cover the majority of the costs with the remainder being topsliced from the Dedicated Schools Grant.

Property, Plant and Equipment

The assets used to provide services at the schools are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 16.

Payments

The Council makes an agreed payment each year, part of which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2018 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payment for Services £'000	Reimbursement of Capital Expenditure £'000	Interest £'000	Total £'000
Payable in 2018/19	2,370	1,172	660	4,202
Payable within 2 to 5 years	10,087	4,536	2,088	16,711
Payable within 6 to 10 years	14,093	5,483	1,412	20,988
Payable within 11 to 15 years	7,471	2,634	221	10,326
Total	34,021	13,825	4,381	52,227

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding for capital expenditure incurred is as follows:

	2016/17 £'000	2017/18 £'000
Balance outstanding at start of year	16,230	15,017
Payments during the year	(1,213)	(1,192)
Balance outstanding at end of year	15,017	13,825

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

33 Members' Allowances

Details of the amounts paid to each Member of the Council are published annually and can be viewed on the Darlington Borough Council website. The total amount paid to Members in respect of basic, special responsibility and travel and subsistence allowance was £587,569 (2016/17 £587,849).

34 Trust Funds

Trust Funds administered by Darlington Borough Council are as follows:

	Balance at 1 April 2017 £'000	Receipts £'000	Payments £'000	Balance at 31 March 2018 £'000
BAT Legacy	81	0	(7)	74
Other	3	0	4	7
	84	0	(3)	81

Purpose of the Trust Funds:

BAT Legacy

British American Tobacco (BAT) closed its Darlington plant in 2004. A legacy was left to the town to support business growth and economic development.

The only main fund that the Council still administers is the BAT legacy as well as 1 other minor fund and as in all cases they don't represent assets of the Council, they have not been included in the Council's Balance Sheet.

35 Related Parties

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are included within Note 31 and the amounts outstanding from/to various government departments are summarised in Notes 22/24.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in Note 33. Councillors are subject to the Council's Member Code of Conduct. The Register of Members' Interests and declarations of interests relating to specific items of discussion at meetings are available for inspection.

During 2017/18, the Council had transactions with the following entities in which Members were deemed to have the potential to control or have significant influence over that entity;

	Expenditure		Income		Creditors		Debtors	
	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000
Bike Stop Darlington Limited	58	47	0	0	(10)	0	0	0
Carmel Education Trust	101	8	0	0	0	0	0	0
Darlington College *	185	0	(29)	0	0	0	0	0
Education Village Academy Trust	2,717	2,556	(1,023)	(951)	(1)	(1)	10	11
First Stop Darlington Limited	74	37	0	0	0	0	0	0
Hummersknott Academy Trust Limited	155	126	(102)	(124)	0	0	37	14
TOTAL	3,290	2,774	(1,154)	(1,075)	(11)	(1)	47	25

* During 2017/18, no Member had an interest in Darlington College.

During 2017/18, the Council paid £3.827m (£4.096m in 2016/17) to and received £0.081m (£0.040m in 2016/17) from other entities in which Members declared an interest on their Members' Interest forms but in which they were not deemed to have the potential to control or have significant influence over those entities. At the end of the year the Council owed £0.001m to these entities (£0.001m owing to these entities in 2016/17).

Senior Officers

The Council's senior managers may influence financial and operating policies through the professional advice to elected Members and through the management decisions they make under delegated powers. Such officers are subject to the Council's Employee Code of Conduct and professional bodies' standards. There are no related party transactions between the Council and its senior managers that require disclosure in 2017/18 (none in 2016/17).

Other Public Bodies

The Council received £6,252,297 (£6,126,658 in 2016/17) from the NHS. The Council paid £3,115,288 (£5,073,515 in 2016/17) to the NHS. At the year end there was £220,262 (£42,687 in 2016/17) owed to the NHS and there was £1,740,188 (£2,530,565 in 2016/17) owed by the NHS.

Entities Controlled or influenced by the Council

The Council has financial relationships with a number of related companies, those considered significant due to the level of investment are detailed below.

Eastbourne Joint Venture Limited

This is a joint venture arrangement with Esh Homes Limited of which the Council owns 50% of the share capital of the Company. The Company was established to develop 60 homes on the former Eastbourne School land that was declared surplus in July 2016 and to date 33 sales have been completed. The Company was incorporated on 16 September 2016 and the first accounting period ended 31 December 2017.

Durham Tees Valley Airport Limited (DTVA)

With effect from 1 April 2003, 75% of the total shareholding in the airport was acquired by Peel Airports Ltd. The Council holds 2.91% of the total shareholding in Peel Airports Ltd. For the year ended 31 March 2017, Durham Tees Valley Airport Limited made an operating loss of £2.733m before taxation (£3.302m for year ended 31 March 2016) and a loss of £2.408m after taxation (loss of £2.590m for the year ended 31 March 2016).

Further information regarding the Company's accounts can be obtained from its registered office at Peel Dome, Intu Trafford Centre, Trafford City, Manchester, M17 8PL.

36 Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2017/18, the Council paid £0.600m to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. The figures for 2016/17 were £0.722m and 16.48%. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 37.

During 2013/14, Public Health staff transferred to the Council and these staff have maintained their membership in the NHS pension scheme. The Scheme provides these staff with sufficient benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is an unfunded defined benefit scheme. However, the Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes and it is therefore accounted for on the same basis as a defined contribution scheme.

In 2017/18 the Council paid £0.024m to the NHS Pension scheme in respect of former NHS staff retirement benefits, representing 14.3% of pensionable pay. The figures for 2016/17 were £0.030m and 14.3%. There were no contributions remaining payable at the year end.

37 Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post employment schemes.

The disclosures below relate to the funded liabilities within the Durham County Council Pension Fund which is part of the Local Government Pension Scheme (LGPS).

The LGPS is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earnings scheme. Details of the benefits earned over the period covered by this disclosure are set out in 'The Local Government Pension Scheme Regulations 2013' and 'The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014'.

There are arrangements in place for the award of discretionary post retirement benefits upon early retirement. This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

Funding / Governance Arrangements of the LGPS

The funded nature of the LGPS requires participating employers and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. Information on the framework for calculating contributions to be paid is set out in LGPS Regulations 2013 and the Fund's Funding Strategy Statement.

An actuarial valuation of the Fund was carried out at 31 March 2016 and as part of that valuation a new Rates and Adjustment Certificate has been produced for the three year period from 1 April 2017.

The Fund Administering Authority, Durham County Council is responsible for the governance of the Fund.

Assets

The assets allocated to the Employer in the Fund are notional and are assumed to be invested in line with the investments of the Fund for the purposes of calculating the return to be applied to those notional assets over the accounting period. The Fund is large and holds a significant proportion of its assets in liquid investments. As a consequence there will be no significant restriction on realising assets if a large payment is required to be paid from the Fund in relation to an employers' liabilities. The assets are invested in a diversified spread of investments and the approximate split of assets for the Fund as a whole is shown in the disclosures split by quoted and unquoted investments.

Transactions Relating to Post-Employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

	Local Government Pension Scheme		Discretionary Benefits	
	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
• current service cost	(7,720)	(10,210)	0	0
• gains from settlements	(770)	(230)	0	0
Financing and Investment Income and Expenditure				
• net interest expense	(3,740)	(3,510)	(380)	(310)
Total Post Employment Benefit Charged to the Deficit/(Surplus) on the Provision of Services	(12,230)	(13,950)	(380)	(310)
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement				
• return on plan assets (excl the amount included in the net interest expense)	33,600	(1,480)	0	0
• actuarial losses arising on changes in financial assumptions	(81,440)	(8,120)	(930)	(80)
• actuarial gains/(losses) arising on changes in demographic assumptions	1,170	0	(100)	0
• actuarial gains/(losses) due to liability experience	21,240	(2,450)	90	1,620
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(37,660)	(26,000)	(1,320)	1,230
Movement in Reserves Statement				
• reversal of net charges made to the Deficit/(Surplus) on the Provision of Services for post employment benefits in accordance with the Code	12,230	13,950	380	310
Actual amount charged against the General Fund Balance for pensions in the year:				
• employers' contributions payable to the scheme	7,460	11,930		
• retirement benefits payable to pensioners			820	880

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement from 1 April 2009 to 31 March 2018 is a loss of £19.400m (to 31 March 2017 a loss of £8.890m).

Pensions Assets and Liabilities Recognised in the Balance Sheet

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000
Fair value of assets	306,790	314,560	0	0
Present value of funded defined benefit obligation	(450,910)	(472,750)	(12,320)	(10,210)
Net liability recognised on the balance sheet	(144,120)	(158,190)	(12,320)	(10,210)

Assets and Liabilities in Relation to Post Employment Benefits

Pension Scheme Assets comprised:

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	Asset Split at 31 March 2017			Asset Split at 31 March 2018		
	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	47.2	0.0	47.2	50.0	0.0	50.0
Property	1.2	6.3	7.5	1.2	5.7	6.9
Government Bonds	27.1	5.4	32.5	29.4	0.0	29.4
Corporate Bonds	0.0	8.2	8.2	8.9	0.0	8.9
Cash	4.6	0.0	4.6	4.8	0.0	4.8
Other	0.0	0.0	0.0	0.0	0.0	0.0
	80.1	19.9	100.0	94.3	5.7	100.0

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits	
	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000
Opening defined benefit obligation balance at 1 April	(380,480)	(450,910)	(11,820)	(12,320)
Current service cost	(7,720)	(10,210)	0	0
Interest expense on defined benefit obligation	(12,770)	(11,590)	(380)	(310)
Contributions by scheme participants	(2,240)	(2,230)	0	0
Actuarial gains on liabilities - financial assumptions	(81,440)	(8,120)	(930)	(80)
Actuarial losses/(gains) on liabilities - demographic assumptions	1,170	0	(100)	0
Actuarial losses/(gains) on liabilities - experience	21,240	(2,450)	90	1,620
Net Benefits paid out	12,100	12,990	820	880
Past Service cost (inc curtailments)	(770)	(230)	0	0
Closing defined benefit balance at 31 March	(450,910)	(472,750)	(12,320)	(10,210)

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000
Opening fair value of assets balance at 1 April	266,560	306,790	0	0
Interest income on assets	9,030	8,080	0	0
Remeasurement (losses)/gains on assets	33,600	(1,480)	0	0
Contributions by the employer	7,460	11,930	820	880
Contributions by scheme participants	2,240	2,230	0	0
Net Benefits paid out	(12,100)	(12,990)	(820)	(880)
Closing fair value of assets balance at 31 March	306,790	314,560	0	0

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

The actual gain on scheme assets in the year was £6.600m (2016/17: gain of £42.630m).

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £168.400m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a reduction in the net worth from £235.023m to £66.623m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2019 is £5.620m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2019 are £0.910m.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by AonHewitt Limited, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2016.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2016/17	2017/18	2016/17	2017/18
Mortality assumptions:				
Longevity at 65 for current pensioners:				
• Men	23.2	23.3	23.2	23.3
• Women	24.9	25.0	24.9	25.0
Longevity at 65 for future pensioners (aged 45 at accounting date):				
• Men	25.4	25.5	n/a	n/a
• Women	27.2	27.3	n/a	n/a
Rate of inflation (RPI)	3.1%	3.2%	3.1%	3.2%
Rate of Inflation (CPI)	2.0%	2.1%	2.0%	2.1%
Rate of increase in salaries	3.5%	3.6%	n/a	n/a
Rate of increase in pensions	2.0%	2.1%	2.0%	2.1%
Pension accounts revaluation rate	2.0%	2.1%	n/a	n/a
Rate for discounting scheme liabilities	2.6%	2.6%	2.6%	2.6%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above, The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption	Decrease in Assumption
	£m	£m
Longevity (increase or decrease by 1 year)	14.17	(14.09)
Rate of increase in salaries (increase or decrease by 0.1% p.a.)	2.12	(2.10)
Rate of increase in pensions (increase or decrease by 0.1% p.a.)	6.93	(6.81)
Rate for discounting scheme liabilities (increase or decrease by 0.1% p.a.)	(8.89)	9.06

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

38 Financial Instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long-term		Current	
	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000
Cash Equivalents Short Term Deposits (See Note 23)	0	0	9,910	23,209
Short Term Investments (Per Balance Sheet)	0	0	10,014	2,001
Loans and Receivables at amortised cost	0	0	19,924	25,210
Available-for-Sale assets	0	28,396	0	0
Total Investments	0	28,396	19,924	25,210
Debtors				
Loans and Receivables	1,253	1,547	0	0
Financial assets carried at contract amounts (Debtors)	0	0	5,229	5,838
Total Debtors	1,253	1,547	5,229	5,838
Borrowings				
Financial liabilities (principal amount)	121,260	132,761	7,000	28,500
Add Accrued Interest	0	0	1,413	1,539
Less Other accounting adjustments	(38)	(39)	0	0
Financial Liabilities at amortised cost	121,222	132,722	8,413	30,039
Total Borrowings (Per Balance Sheet)	121,222	132,722	8,413	30,039
PFI and finance lease liabilities	13,825	12,653	1,192	1,172
Total other long term creditors (Per Balance Sheet)	13,825	12,653	1,192	1,172
Financial liabilities carried at contract amount	0	0	2,890	2,322
Total Creditors	0	0	2,890	2,322

Income, Expense, Gains and Losses

	2017/18			
	Financial Liabilities measured at amortised cost £'000	Financial Assets: Loans and receivables £'000	Financial Assets: Available-for-sale £'000	Total £'000
Interest expense	6,403	0	0	6,403
Total expense in Deficit on the Provision of Services	6,403	0	0	6,403
Interest income	0		(502)	(502)
Total income in Deficit on the Provision of Services	0	0	(502)	(502)
Loss on revaluation	0	0	1,037	1,037
Surplus arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	0	0	1,037	1,037
Net gain for the year	6,403	0	535	6,938

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

	2016/17			
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available-for-sale	Total
	£'000	£'000	£'000	£'000
Interest expense	6,387	0	0	6,387
Total expense in Deficit on the Provision of Services	6,387	0	0	6,387
Interest income	0	(202)	0	(202)
Total income in Deficit on the Provision of Services	0	(202)	0	(202)
Loss on revaluation	0	0	0	0
Surplus arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	0	0	0	0
Net gain/(loss) for the year	6,387	(202)	0	6,185

Fair Value of Financial Assets

Some of the authority's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques to measure them.

Financial assets measured at fair value				
Recurring fair value measurements	Input level in fair value Hierarchy	Valuation technique used to measure fair value	As at 31 March 2017 £'000	As at 31 March 2018 £'000
Available for Sale Other financial instruments classified as Available-for-Sale - Property Funds	Level 1	Unadjusted quoted prices in active markets for identical shares - Bid price	n/a	28,396

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- for loans from both PWLB and non PWLB payable, borrowing rates from PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- no early repayment or impairment is recognised;
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value; and
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2017		31 March 2018	
	Carrying amount £'000	Fair Value £'000	Carrying amount £'000	Fair Value £'000
Financial Liabilities:				
PWLB Debt	65,311	83,838	86,811	104,630
Non PWLB debt	62,950	110,585	74,450	125,492
PFI Debt	15,017	19,852	13,825	16,405
Total Debt	143,278	214,275	175,086	246,527
Creditors	2,890	2,890	2,322	2,322

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31st March 2018) arising from a commitment to pay interest to lenders above current market rates.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

The fair value of PWLB loans of £104.630m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date which has been assumed as the PWLB new borrowing rates. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the Council will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £86.811m would be valued at £104.630m. But if the Council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge based on the redemption interest rates, an early redemption charge of £33.474m for the additional interest which will not now be paid. The exit price for the PWLB loans including the penalty charge would be £120.285m.

	31 March 2017		31 March 2018	
	Carrying amount £'000	Fair Value £'000	Carrying amount £'000	Fair Value £'000
Financial Assets				
Debtors	5,229	5,229	5,068	5,068

The fair value of the assets is greater than the carrying amount because the Council's portfolio of investments includes a fixed rate investment where the interest rate payable is higher than the rates available for similar investments in the market at the balance sheet date. This shows a notional future gain (based on economic conditions at 31st March 2018) arising from a commitment to receive interest from lenders above current market rates.

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

39 Nature and Extent of Risks Arising from Financial Instruments

Key Risks

The Council's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the Council
- liquidity risk – the possibility that the Council might not have funds available to meet its commitment to make payments
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

Overall Procedures for Managing Risk

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. The procedures for risk management are set out in a legal framework in the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall these procedures require the Council to manage risks in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by the adoption of a treasury policy statement and treasury management clauses within the Constitution;
- by approving annually in advance prudential indicators for the following three years limiting the Council's overall borrowing including:
 - its maximum and minimum exposures to fixed and variable rates;
 - its maximum annual exposure to investments maturing beyond 1 year
- by approving an investment strategy for the forthcoming year setting out it's criteria for both investing and selecting investment counterparties in compliance with Government Guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risks in relation to the Council's financial instrument exposure. Actual performance is also reported half-yearly to Members.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 28 February 2017 and 25 January 2018 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2017/18 was set at £205.616m. This was the maximum amount of external borrowings and other long term liabilities allowed. This was subsequently updated to £310.616m in the revised strategy.
- The operational Boundary was expected to be £192.825m. This is the expected level of borrowing and other long term liabilities during the year. This was subsequently updated to £295.825m in the revised strategy.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 40% based on the Council's net debt.
- The maximum and minimum exposure to the maturity structure of debt are shown in the note relating to refinancing and maturity risk.

Risk Management is carried out by a central treasury team under policies approved by the Council in the Annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and institutions unless they meet the minimum requirements of investment criteria outlined below.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Credit Ratings Services. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category. Additional selection criteria are also applied after these initial criteria are applied. Full details of the Investment Strategy can be found on the Council's website. The key areas of the investment Strategy are the minimum criteria for investment counterparties which include:

- UK institutions Credit rating of Short Term F1, Long Term A- or equivalent
- Non UK institutions Credit rating of Short Term F1+, Long Term AA- or equivalent
- UK institutions provided with support from the UK Government.

The full Investment Strategy for 2017/18 was approved by full Council on 28 February 2017 and is available on the Council's website.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default assessed by the ratings agencies and the Council's experience of its customer collection levels over the last five financial years, adjusted to reflect current market conditions:

	Amount at 31 March 2018 £'000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2018 %	Estimated maximum exposure to default and uncollectability at 31 March 2017 £'000	Estimated maximum exposure at 31 March 2018 £'000
Deposits with banks and Financial Institutions					
AAA rated counterparties	15,000	0	0	0	0
AA Rated Counterparties	2,000	0	0	0	0
Less than 1 year					
1 to 2 years					
A rated counterparties	6,000	0.09	0.007	1	1
UK Government backed Banks BBB+ rated	0				0
Trade debtors	5,038	13.30	15.00	947	758

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

The Council does not generally allow credit for customers, such that £4.003m of the £5.838m balance shown in the balance sheet as part of short term debtors is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31 March 2017 £'000	31 March 2018 £'000
Debts on Payment plans	1,324	990
Less than 3 months	416	891
3 to 6 months	199	302
6 months to 1 year	297	376
More than 1 year	878	1,444
	3,114	4,003

Liquidity Risk

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets is as follows:

	31 March 2017 £'000	31 March 2018 £'000
Less than 1 year	21,000	23,000
	21,000	23,000

All trade and other payables are due to be paid in less than one year and are not shown in the table above.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicators limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the Treasury Management Strategy)

	Approved Maximum Limits	31 March 2018	31 March 2017 £'000	31 March 2018 £'000
Less than 1 year	25%	18%	7,000	28,500
Between 1 and 2 years	40%	3%	10,000	5,000
Between 2 and 5 years	60%	10%	14,750	15,250
Between 5 and 10 years	80%	5%	2,000	8,000
More than 10 years	100%	64%	93,411	103,411
Total		100%	127,161	160,161

Market Risk

Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall (no impact on revenue balances);
- investments at variable rates – the interest income credited to the Comprehensive Income Expenditure Statement will rise; and
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance subject to influences from Government grants (HRA). Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy brings together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy, a treasury indicator is set which provides limits for fixed and variable rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

According to this assessment strategy, at 31 March 2018, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£'000
Increase in interest payable on variable rate borrowings	(272)
Increase in interest receivable on variable rate investments	(190)
Impact on Surplus or Deficit on the Provision of Services	(462)
Share of overall impact debited to the HRA	(233)
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure) includes PFI contract.	35,314

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the note Fair value of Assets and Liabilities carried at Amortised Cost.

Price Risk

The Council, excluding the Pension Fund, does not generally invest in equity shares or marketable bonds and therefore does not have exposure to price risk in its investments.

The council holds £28.396m of units in property funds, and their price varies, however these are classified as Available-for-Sale, meaning that all movements in price will impact on the gains and losses recognised in the Available-for-Sale Reserve.

A general shift of 5% in the general price of units (positive or negative) would have resulted in a £1.420m gain or loss in the Available-for-Sale Reserve.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

40 Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Director of Neighbourhood Services & Resources on 31 May 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no significant post balance sheet events to be disclosed.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

41 Prior Period Adjustment

The Council discovered that its valuation for council dwellings was understated in 2016/17 by £40.783m due to using the Major Repairs Allowance (MRA) as a proxy for depreciation. The asset management system whilst accumulating the MRA didn't reverse it back out again and subsequently reduced the net book valuation on council dwellings. As the Council now has a statutory duty from 2017/18 to calculate depreciation in line with accounting regulations without reference to MRA the error is unlikely to occur again.

In order to correct the error, the Council has restated the prior year information for 2016/17 for the £40.783m, this effects the CIES, Balance Sheet, MIRS, note 16 PPE & the HRA I&E.

Extract from Comprehensive Income and Expenditure Statement for the year ended 31 March 2017

	Original £'000	Restated £'000	Variance £'000
Children and Adult Services	55,035	55,051	16
Economic Growth Group	20,783	21,324	541
Neighbourhood Services and Resources	(5,148)	(45,412)	(40,264)
Other	(341)	(341)	0
Cost of Services	<u>70,329</u>	<u>30,622</u>	<u>(39,707)</u>
Other Operating expenditure	900	900	0
Losses on the disposal of non-current assets	2,635	2,635	0
Financing and investment income and expenditure	11,329	10,253	(1,076)
Taxation and non-specific grant income	(93,153)	(93,153)	0
Deficit on Provision of Services	<u>(7,960)</u>	<u>(48,743)</u>	<u>(40,783)</u>

Extract from Balance Sheet as at 31 March 2017

	Original £'000	Restated £'000	Variance £'000
Property, Plant and Equipment	307,966	348,749	40,783
Unusable Reserves	(31,956)	8,827	40,783

Extract from Adjustments Between Accounting Basis and Funding Basis Under Regulations for year ended 31 March 2017

	Original HRA £'000	Restated HRA £'000	Variance £'000
Posting of HRA resources from revenue to the Major Repairs Reserve	4,414	45,197	40,783
Other	12,372	12,372	0
Total Adjustments	<u>16,786</u>	<u>57,569</u>	<u>40,783</u>

Extract from Property, Plant & Equipment Note as at 31 March 2017

	Original Council Dwellings £'000	Restated Council Dwellings £'000	Variance £'000
Cost or Valuation	147,900	147,900	0
Accumulated Depreciation and Impairment	40,980	197	(40,783)
Net Book Value as at 31 March 2017	<u>106,920</u>	<u>147,703</u>	<u>40,783</u>

Extract from HRA Income and Expenditure Statement

	Original £'000	Restated £'000	Variance £'000
Expenditure			
Depreciation of non-current assets - On HRA dwellings	(4,414)	36,369	40,783

41 Statement of Accounting Policies

a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. The principal accounting policies have been applied consistently throughout the year.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

b) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance is written down and a charge made to revenue for the income that might not be collected. The Council has adopted a de minimis level of £500 for year-end accruals which means that they are not included in the accounting statements.
- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

The only exceptions to these principles where costs are not apportioned between years are:

- housing rents are shown in whole weeks
- quarterly accounts e.g. electricity are reflected on the basis of four payments per year

This policy is consistently applied each year and does not materially affect the accounts.

c) Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions, including on-call accounts and deposits with Money Market Funds, repayable without penalty on notice of not more than 24 hours held to meet short-term cash commitments. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. Bank overdrafts that form an integral part of daily cash management are classified as cash and cash equivalents.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

d) Prior Period Adjustments, Changes In Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

e) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off, and
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

f) Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

g) Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexi time or time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the relevant service line or, where applicable, to a corporate service line at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards although it is the Council's policy not to award any such enhancements.

Post Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by NHS Pensions
- The Local Government Pensions Scheme, administered by Durham County Council.

The schemes provide defined benefits to members (retirement lump sums and pensions) earned as employees of the Council.

However, the arrangements for the teachers' and the NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Childrens' and Adults Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year as is the employer's contributions payable to the NHS Pension scheme in the year.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Durham County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (based on the indicative rate of return on high quality corporate bonds).
- The assets of Durham County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
 - current service cost - the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
 - past service cost - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
 - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council - the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

- Remeasurements comprising:
 - the return on plan assets - excluding amounts included in net interest on the net defined liability (asset) charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Durham County Council pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

h) Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

i) Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market,
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices - the market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis;
- equity shares with no quoted market prices – multiple valuation techniques (which include market approach, income approach, and cost approach).

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date
- Level 2 inputs - inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly
- Level 3 inputs - unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Instruments entered into before 1st April 2006

The Council has two financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that they are shown in contingent liability note 27.

j) Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset received in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement.

Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Business Improvement Districts

A Business Improvement District (BID) scheme applies across the town centre of the Council. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement. The Council's BID scheme was discontinued during 2017/18.

k) Interests in Companies and Other Entities

The Code of Practice on Local Authority Accounting 2017/18 requires local authorities to produce group accounts to reflect significant activities provided to council taxpayers by other organisations in which an authority has an interest. The Council has reviewed its interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures against the criteria in the Code and concluded that there are no such material interests that require the preparation of group accounts. In the Council's own single-entity accounts, the interest in companies and other entities are recorded as financial assets at cost, less any provision for losses.

l) Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value, with the exception of stores held at Allington Way Depot, which are valued at last price paid. This is a departure from the Code of Practice but the effect of the different treatment is not material. Work in progress is subject to an interim valuation at the year-end and recorded in the balance sheet at cost plus any profit reasonably attributable to the works.

m) Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

n) Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent upon the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or Equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

o) Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

p) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rentals to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Capital expenditure under £5,000 is classified as de-minimis and is charged to the Comprehensive Income and Expenditure Statement. The de-minimis expenditure is financed using existing capital resources or by borrowing, this is posted out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement so there is no impact on the levels of council tax.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but that does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction - depreciated historical cost;
- dwellings - current value, determined using the basis of existing use value for social housing (EUV-SH);
- school buildings - current value, but because of their specialised nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- surplus assets - the current value measurement basis is fair value, estimated at highest and best use from a market participant's perspective;
- all other assets - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Where there is no market-based evidence of current value because of the specialised nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- buildings - straight-line allocation over the useful life of the property as estimated by the valuer;
- The calculation to depreciate Council Dwellings has changed in 2017-18 from using the Major Repairs Allowance (MRA) as a proxy for depreciation and componentisation of council houses to depreciating on an asset life basis. The existing use value has been divided by the average life to determine the in-year depreciation for 2017-18;
- vehicles, plant, furniture and equipment - a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer;
- infrastructure - straight-line allocation over 30 years

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2018

Where an item of property, plant and equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Assets valued higher than £1m that are made up from different components and whose cost is significant in relation to the total cost of the item are depreciated on a component by component basis. The components used are host (structure), externals, services and roof. Once separated, depreciation is charged across each components useful life as appropriate.

Revaluations gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the Government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

q) Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contract for no additional charge, the Council carries the assets used under the contract on its Balance Sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into three elements:

- fair value of the services received during the year - debited to the relevant service in the Comprehensive Income and Expenditure Statement,
- finance cost - an interest charge of 4.77% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- payment towards liability - applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

r) Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council has an obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in note 27 to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential although at present the Council doesn't have any Contingent Assets.

s) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

t) Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

u) Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue & Customs. VAT receivable is excluded from income.

v) Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority.

The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements. Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

w) Heritage Assets

A heritage asset is defined as an asset with 'historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.'

Heritage assets are accounted for in accordance with the Council's accounting policies on property, plant and equipment except 'where it is not practical to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, heritage assets shall be measured at historic cost.' Valuations may also be made by any method that is appropriate and relevant.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment (see page 62). If any heritage assets are disposed of then the proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

x) Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in highest or best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date
- Level 2 inputs - inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly
- Level 3 inputs - unobservable inputs for the asset.

y) Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the financial statements, depending on how significant the items are to an understanding of the Council's financial performance.

**Housing Revenue Account for Darlington Borough Council for the year ended
31 March 2018
HRA Income and Expenditure Statement**

Restated 2016/17		2017/18	Notes
£'000		£'000	
	<u>Expenditure</u>		
(3,600)	Repairs and maintenance	(3,526)	
(5,532)	Supervision and management	(5,593)	
(23)	Rent, rates, taxes and other charges	(85)	
(159)	Increased provision for bad and doubtful debts	(196)	8
	<u>Depreciation of non-current assets:</u>		
36,369	On HRA dwellings	(2,413)	7
(10)	On Non-HRA dwellings	0	7
(273)	Impairment of Fixed Assets	(263)	3
11,091	Revaluation (Loss) / Gain on Fixed Assets	(6,564)	3
(3)	Revenue Expenditure funded from Capital under Statute	0	4
(8)	Debt management costs	(18)	
37,852	Total Expenditure	(18,658)	
	<u>Income</u>		
19,910	Dwelling rents	20,010	
394	Non-dwelling rents	397	
3,298	Charges for services & facilities	3,347	
471	Contribution towards Expenditure	433	
24,073	Total Income	24,187	
61,925	Net Expenditure or Income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement	5,529	
(5)	HRA Share of other amounts included in the whole Authority net costs of services but not allocated to specific services	119	
61,920	Net income for HRA Services	5,648	
	HRA Share of Operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
(3,060)	Interest Payable and Similar Charges	(2,881)	
42	Gain on sale on HRA non-current assets	62	
53	Interest and Investment Income	38	
(199)	Pension Interest Cost and Expected Return on Pension Assets	(191)	
58,756	Surplus for the Year on HRA Services	2,676	

2016/17 has been restated due to an error in depreciation, further explanation is given in note 41 to the accounts

**Housing Revenue Account for Darlington Borough Council for the year ended
31 March 2018**

Movement on the HRA Statement

Restated As at 31 March 2017		As at 31 March 2018	As at 31 March 2018
£'000		£'000	£'000
16,493	Balance on the HRA at the end of the previous year		15,925
58,756	Surplus for the year on the HRA Income and Expenditure Statement	2,676	
	Adjustments between accounting basis and funding basis under statute:		
4	Difference between amounts charged to Income and Expenditure for amortisations of premiums and discounts and the charge for the year determined in accordance with statute	10	
(47,165)	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	9,254	
(629)	Voluntary set aside for debt repayment	(629)	
(11,743)	Capital expenditure funded by the HRA	(13,424)	
(777)	Net decrease before transfers to reserves	(2,113)	
	Transfers (to) or from earmarked reserves:		
610	Net charges made for retirement benefits in accordance with IAS19	714	
0	Other transfers from/(to) earmarked reserves	0	
(401)	Employer's contributions payable to the Durham County Council Pension Fund and retirement benefits payable direct to pensioners.	(642)	
209	Transfers from reserves	72	
(568)	Decrease in year on the HRA		(2,041)
15,925	Balance on the HRA at the end of the current year		13,884

**Notes to the Housing Revenue Account for Darlington Borough Council for Year ended 31 March
2018**

1 Housing Stock

1 April 2017		31 March 2018
	<u>Number and types of dwellings</u>	
2,679	Houses	2,685
2,266	Flats	2,310
344	Bungalows	344
3	Non HRA	2
<hr/> 5,292	Total dwellings	<hr/> 5,341
	<u>Balance Sheet values</u>	
£000		£000
88	Land	108
103,376	Houses	112,040
3,456	Other property	370
<hr/> 106,920	Total net Balance Sheet value	<hr/> 112,518
	<u>Operational Assets</u>	
103,376	Dwellings	112,040
0	Other Land & buildings	0
<hr/> 103,376		<hr/> 112,040
3,544	Non-operational assets	478
<hr/> 106,920	Total net Balance Sheet value	<hr/> 112,518

2 Vacant Possession Values

The vacant possession value of dwellings as at 1 April in the financial year is £345.896M (£332.749M in 2016/17).

The vacant possession value of a property is defined as an opinion of the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of the valuation.

The vacant possession value most naturally relates to sale of a single owner-occupied dwelling. Therefore it must be adjusted to obtain the balance sheet or social housing value. The social value housing value reflects a valuation for a property if it were disposed of with sitting tenants enjoying sub-market rents and tenants' rights. Rents in the private sector reflect capital values quite well since they are market rents. Rents set by local authorities are unlikely to reflect the market position as they have been arrived at through a combination of historic practice and current policy.

The difference between the vacant possession value and the balance sheet value therefore shows the economic cost to the Government of providing council housing at less than open market value.

3 Impairment/Revaluation of Non-current assets

These charges occur where there is a material reduction in the value of a non-current asset during an accounting period. Impairment/revaluation charges of £6.827m (£11.748m in 2016/17) were charged to the HRA Income and Expenditure in 2017/18. This represents £0.263m (£0.273m in 2016/17) of capital expenditure incurred in the year that did not add value to the current housing stock valuation and £6.564m (£12.021m in 2016/17) following a re-valuation exercise carried out during the year.

Revaluation gains are credited to the HRA Income and Expenditure Statement where they arise from the reversal of a loss previously charged to the HRA, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised. Gains reversed in 2017/18 amount to £2.265m (£17.097m in 2016/17).

**Notes to the Housing Revenue Account for Darlington Borough Council for Year ended 31 March
2018**

4 Revenue Expenditure funded from Capital under Statute

Capital expenditure in 2017/18 included expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets and has been charged as expenditure to the HRA Income and Expenditure Account. Grants received towards the cost of this expenditure can be regarded as revenue grants despite their classification as capital. In 2017/18 Revenue Expenditure funded from Capital under Statute was nil (£0.003m in 2016/17), capital grants treated as revenue totalled nil (£0.003m in 2016/17).

5 Major Repairs Reserve

An analysis of the movement on the Major Repairs Reserve (MRR) is as follows :

2016/17 £'000		2017/18 £'000
0	Balance as at 1 April	0
	Transfer to MRR during the financial year	
36,369	Depreciation on HRA dwellings	0
(10)	Depreciation on other HRA assets	0
	Transfer to HRA during the financial year	
10	Depreciation on other HRA assets	0
	Transfer from MRR during the financial year in respect of capital expenditure on Houses	
(36,369)		0
<u>0</u>	Balance as at 31 March	<u>0</u>

Due to a change in the regulations, the Council no longer uses MRA as a proxy for depreciation of the housing stock and instead it is depreciated based upon a full component accounting basis. .

6 Capital Expenditure

Capital expenditure within the HRA during 2017/18 was as follows :

2016/17 £'000		2017/18 £'000
24	Land	75
14,157	Houses	15,555
4	Other property	4
<u>14,185</u>	Total capital expenditure	<u>15,634</u>

Total capital expenditure on land, houses and other property within the HRA during 2017/18 was funded via the following sources:

2016/17 £'000		2017/18 £'000
0	General Fund Capital Receipts	41
641	Usable capital receipts	985
11,743	Revenue	13,424
1,801	Other Grant Funding	825
0	Capital Contribution	359
<u>14,185</u>	Total capital expenditure	<u>15,634</u>

A summary of total capital receipts from disposals is as follows :

2016/17 £'000		2017/18 £'000
1,322	Houses	1,852
<u>1,322</u>	Total capital receipts	<u>1,852</u>

**Notes to the Housing Revenue Account for Darlington Borough Council for Year ended 31 March
2018**

7 Depreciation of Non-current Assets

Depreciation charges also form part of the New Financial Framework. They reflect the consumption of HRA assets over their useful life and are as follows:

2016/17		2017/18
£'000		£'000
36,369	Houses	2,413
(10)	Other property	0
<u>36,359</u>	Total charge for depreciation	<u>2,413</u>
	Operational Assets	
36,369	Dwellings	2,413
(10)	Other land and buildings	0
<u>36,359</u>	Total charge for depreciation	<u>2,413</u>

8 Rent Arrears

Details of gross rent arrears, which include garages, heating and water charges are:

2016/17		2017/18
£'000		£'000
1,505	Gross rent arrears as at 31 March	1,427

A provision in respect of uncollectable rent debts is included in the consolidated balance sheet.

Year Ended		Year Ended
31 March		31 March
2017		2018
£'000		£'000
412	Opening provision for uncollectable debts	430
(141)	Amounts written off in the year	(108)
159	Increase in provision for the year	196
<u>430</u>	Closing provision for uncollectable debts	<u>518</u>

Collection Fund for Darlington Borough Council for the year ended 31 March 2018

2016/17		2017/18			Notes
		Council Tax	Non-domestic rates	Total	
Total					
£'000		£'000	£'000	£'000	
	<u>Income</u>				
(50,019)	Income from Council Tax	(53,398)	0	(53,398)	2
(34,639)	Income from Business Rates	0	(33,917)	(33,917)	3
	Contributions				
(1,240)	Darlington Borough Council	0	(1,158)	(1,158)	
(1,266)	Central Government	0	(1,182)	(1,182)	
(25)	County Durham and Darlington Fire & Rescue Authority	0	(24)	(24)	
(87,189)	Total Income	(53,398)	(36,281)	(89,679)	
	<u>Expenditure</u>				
	Precepts and demands				
59,197	Darlington Borough Council	44,279	14,499	58,778	
5,267	Office of the Durham Police and Crime Commissioner	5,414	0	5,414	
3,394	County Durham and Darlington Fire & Rescue Authority	3,124	296	3,420	
17,734	Central Government	0	14,778	14,778	
245	Transitional Protection payment - NNDR	0	3,528	3,528	
	Release of apportionment of Council Tax surplus				
0	Darlington Borough Council	0	0	0	
0	Office of the Durham Police and Crime Commissioner	0	0	0	
0	County Durham and Darlington Fire & Rescue Authority	0	0	0	
	Business rate				
147	Costs of collection	0	143	143	
	Impairment of Bad or Doubtful Debts / Appeals				
1,120	Write offs	938	338	1,276	
(127)	Movement in net provision	(441)	34	(407)	
317	Increase in Provision for Appeals	0	1,091	1,091	
87,294	Total Expenditure	53,314	34,707	88,021	
105	Collection Fund (surplus)/deficit for the year	(84)	(1,574)	(1,658)	
2,589	Collection Fund deficit balance b/fwd	211	2,483	2,694	
105	Collection Fund deficit/(surplus) for the year	(84)	(1,574)	(1,658)	
2,694	Collection Fund deficit balance c/fwd	127	909	1,036	
	Allocated to:				
1,393	Darlington Borough Council	107	445	552	
22	Office of the Durham Police and Crime Commissioner	13	0	13	
38	County Durham and Darlington Fire & Rescue Authority	7	9	16	
1,241	Central Government	0	455	455	
2,694		127	909	1,036	

1 Collection Fund

In order to comply with the terms of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992), local authorities must maintain a separate Collection Fund. The purpose of the Collection Fund therefore, is to isolate the income and expenditure relating to Council Tax and National Non-domestic Rates.

The Collection Fund is an agent's statement that reflects the statutory obligations for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates (NNDR).

2 Income From Council Tax

The Council Tax is a tax based on property bandings (A to H).

There is a basic tax for the middle band (Band D) with proportionately higher and lower taxes for the other bands.

The Council's tax base i.e. the number of chargeable dwellings in each band (adjusted for discounts and exemptions) and converted to an equivalent number of Band D dwellings was calculated as follows and approved by Full Council in January 2017:

Band	A	B	C	D	E	F	G	H
Chargeable Dwellings	9,628	6,409	5,423	4,855	3,344	1,617	858	58
Ratio	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9

The Council set a basic council tax in 2017/18 of £1,379.30 (£1,313.75 in 2016/17), being the amount payable in respect of properties in Band D for services provided by Darlington Borough Council.

The Office of the Durham Police, Crime and Victims' Commissioner set a Band D council tax in 2017/18 of £169.24 (£165.95 in 2016/17) for their services.

County Durham and Darlington Fire & Rescue Service set a Band D council tax in 2017/18 of £97.65 (£95.76 in 2016/17) for their services.

A small additional charge is also payable in respect of parish council services in certain areas of the borough.

3 Income Collectable From Business Rate payers

Under the national system for non-domestic rates, the Council collects from local businesses an amount equal to the rateable value of their property multiplied by a uniform rate set by the Government. In previous financial years the total amount due, less certain allowances, was paid to a central pool (the NNDR pool) administered by Central Government, which in turn, paid to Local Authorities their share of the pool, such shares being based on a standard amount per head of the local adult population.

In 2013/14, the administration of NNDR changed following the introduction of a business rates retention scheme which aimed to give Councils a greater incentive to grow businesses but also increased the financial risk due to volatility and non-collection of rates. Instead of paying NNDR to the central pool, local authorities retain proportion of the total collectable rates due. The Council retains 49% with the remainder distributed to Central Government (50%) and the other 1% to the County Durham Fire & Rescue Authority.

When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive their baseline amount. Tariffs due from authorities payable to Central Government are used to finance the top ups to those authorities who do not achieve their targeted baseline funding. Darlington is a top up authority and in 2017/18 it received a grant of £6.815m.

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by the Valuation Office and hence business rates outstanding as at 31 March 2018. As such authorities are required to make a provision for these amounts in the same proportion as the precepting shares (49:50:1). In 2017/18 the total provision was reviewed and due to the 2017 revaluation increased to £2.151m, an increase of £1.091m.

The total national non-domestic rateable value at 31st March 2018 was £83.723m (£87.423m in 2016/17). The non-domestic rating multiplier for 2017/18 was 47.9p per £ (49.7p per £ in 2016/17) and the small business non-domestic rating multiplier for 2017/18 was 46.5p per £ (48.4p per £ in 2016/17).

Independent Auditor's Report to the Members of Darlington Borough Council

Opinion

We have audited the financial statements of Darlington Borough Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement;
- Notes to the Core Financial Statements 1 to 41;
- Housing Revenue Account Income and Expenditure Statement and related notes 1 to 8; and
- Collection Fund Statement and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Darlington Borough Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Assistant Director - Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Director - Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Narrative Report of Darlington Borough Council by the Assistant Director - Resources set out on pages 3-13, other than the financial statements and our auditor's report thereon. The Assistant Director - Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report to the Members of Darlington Borough Council

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Darlington Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Assistant Director - Resources

As explained more fully in the Statement of Responsibilities for the Statement of Accounts of Darlington Borough Council set out on page 14, the Assistant Director - Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Assistant Director – Resources is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or have no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Independent Auditor's Report to the Members of Darlington Borough Council

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Darlington Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Darlington Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Darlington Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Darlington Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Darlington Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Nicola Wright (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Newcastle upon Tyne

The maintenance and integrity of the Darlington Borough Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Accounting Period

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April and ending as at the balance sheet date, 31 March.

Accruals

The concept that income and expenditure is accounted for as it is earned or incurred, not as money is received or paid.

Accounting Policies

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- recognising
- selecting measurement bases for, and
- presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements.

Actuarial Gains and Losses

Actuaries assess financial and non-financial information provided by the Pension Authority to project levels of future pension fund requirements. For a defined benefit pension scheme, the changes in actuarial deficits or surpluses can arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or
- the actuarial assumptions have changed.

Agency

The provision of a service by an authority on behalf of another authority, which is legally responsible for providing that service. The responsible authority reimburses the authority providing the service in the first instance.

Asset

An item owned by the Council, which has a monetary value. Assets are defined as current or non-current.

- Current assets will be consumed or cease to have value within the next financial year, e.g. stocks and debtors;
- Non-current assets provide benefits to the Council and to services it provides for a period of more than one year, for example, land, buildings, vehicles and equipment;
- Intangible assets are non-financial fixed assets, such as software licences, that do not have physical substance but are identifiable and are controlled through custody or legal rights.

Associate

An entity other than a subsidiary or joint venture in which the reporting authority has a participating interest and over whose operating and financial policies the reporting authority is able to exercise significant influence.

Audit

An independent examination of the Council's activities, either by internal audit or the Council's external auditor, who are Ernst & Young LLP.

Authorised Limit

This represents the legislative limit on the Council's external debt under the Local Government Act 2003.

Balance Sheet

A statement of the recorded assets, liabilities and other balances at the end of an accounting period.

Balances

The capital or revenue reserves of the Council made up of the accumulated surplus of income over expenditure on the General fund or any other fund.

Budget

The forecast of the net revenue and capital expenditure over the accounting period. Members approve budgets, based on policies, linked to the corporate plan.

Capital Adjustment Account

This account accumulates the write-down of the historical cost of Property, Plant and Equipment as they are consumed by depreciation and impairments or written off on disposal. It accumulates the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded by capital under statute). The balance on the account thus represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

Capital Charges

A charge to services for the use of non-current assets, which comprises:

- a capital financing charge equivalent to notional interest on the net value of the assets; and
- a depreciation charge based on the remaining finite life of the asset.

Capital Expenditure

Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period or, expenditure which adds to an existing non-current asset.

Capital Financing

The raising of money to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contribution, revenue reserves and earmarked reserves.

Capital Financing Requirement

The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code. This measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimate of any additional capital financing requirement for the current and the next two financial years.

Capital Grants

Grants received toward capital expenditure on a particular service or project.

Capital Receipts

The proceeds from the disposal of land or other capital assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the Government, but they cannot be used for revenue purposes.

Carry-forwards

Unspent revenue budgets which, upon approval, services can use in future years.

Carrying Amount

The Balance Sheet value recorded of either an asset or liability.

CIPFA

The Chartered Institute of Public Finance and Accountancy. This is the professional institute governing how public money is used and how it has to be reported.

CoP - 'Code of Practice on Local Authority accounting in the United Kingdom'

The Code of Practice specifies the principles and practices of accounting required to prepare a Statement of Accounts which 'presents fairly' the financial position and transactions of a local authority.

Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and NDR and its distribution to other local government bodies and Central Government.

Community Assets

This is a category of Property, Plant and Equipment that the Council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Consistency

The concept that the accounting treatment of like items within an accounting period and from one period to the next are the same.

Contingency

A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain events.

Contingent Asset

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

Contingent Liability

A condition which exists at the balance sheet date, which may arise in the future but where the outcome will be confirmed only on the occurrence or non-occurrence of one or more future events.

Corporate and Democratic Core (CDC)

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Council Tax

This is a banded property tax which is levied on domestic properties throughout the Borough. The banding is based on estimated property values as at 1 April 1991.

Council Tax Requirement

This is the estimated revenue expenditure on General Fund services that needed to be financed from the Council Tax after deducting income from fees and charges, certain specific grants and any funding from reserves.

Creditor

Amounts owed by the Council for works done, goods received or services rendered before the end of the accounting period but for which payments have not been made by the end of that accounting period.

Current Service Costs (Pensions)

The increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

Curtailement

Curtailements will show the cost of the early payment of pension benefits if any employee has been made redundant in the previous year.

Debt Outstanding

Amounts borrowed to finance capital expenditure that are still to be repaid.

Debtor

Amounts due to the Authority for works done, goods received or services rendered before the end of the accounting period but for which payments have not been received by the end of that accounting period.

Deferred Capital Receipts

These represent capital income still to be received after disposals have taken place and wholly consists of principal outstanding from the sale of council houses.

Deferred Charges

Expenditure of a capital nature, met from borrowing, but where there is no tangible asset, e.g. improvement grants. This includes loans outstanding on assets sold in cases where the sale proceeds were used for new capital investment.

Defined Benefit Pension Scheme

Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investment of the scheme.

Defined Contribution Scheme

A Defined Contribution Scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all of the employee benefits relating to employee service in the current and prior periods.

Depreciation

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

Discretionary Benefits (Pensions)

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers such as The Local Government (Discretionary Payments) Regulations 1996.

Earmarked Reserves

The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

Entity

A body that is delivering a service, or carrying on a trade or business, with or without a view to profit.

Estimation Techniques

The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accountancy policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- methods of depreciation, such as straight line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period; and
- different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual

Exceptional Items

Material items that derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Expected Return on Pension Assets

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Expenditure

Amounts paid by the Council for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment, as expenditure is deemed to have been incurred once the goods or services have been received, even if they have not yet been paid for.

Extraordinary Items

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items, nor do they include prior period items merely because they relate to a prior period.

Events after the Balance Sheet Date

Events after the balance sheet date are those events, favourable or unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives.

Fixed Assets

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

General Fund

This is the main revenue fund of the Council and includes the net cost of all services financed by local taxpayers and Government Grants.

Going Concern

The concept that the statement of accounts are prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

Government Grants

Grants made by the Government towards either revenue or capital expenditure to support the cost of the provision of the Council's services. These grants may be specifically towards the cost of particular schemes or to support the revenue spend of the Council.

Heritage Assets

An asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Housing Act Advances

Loans made by an authority to individuals or Housing Associations towards the cost of constructing, acquiring or improving dwellings. Loans to individuals are termed mortgages.

Housing Benefits

A system of financial assistance to individuals toward certain housing costs administered by authorities and subsidised by Central Government.

Housing Revenue Account (HRA)

A statutory account maintained separately to the General Fund. It includes all revenue expenditure and income relating to the provision, maintenance and administration of council housing and associated areas.

IFRS

Defined Accounting Standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

Impairment

A reduction in the value of a non-current asset, below its carrying amount on the balance sheet.

Income

Amounts which the Council receives or expects to receive from any source, including fees, charges, sales and grants.

Income and Expenditure Account

The revenue account of the Council that reports the net cost for the year of the functions for which it is responsible, and demonstrates how that cost has been financed from precepts, grants and other income.

Infrastructure Assets

A class of fixed assets belonging to the Council whose life is of indefinite length and which are not usually capable of being sold. Examples include roads, highways, footpaths, bridges and water facilities.

Intangible Assets

These are non-financial fixed assets, such as software licences, that do not have physical substance but are identifiable and are controlled by custody or legal rights.

Interest Cost (Pensions)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to the settlement.

IAS 1 - Presentation of Financial Statements

The objective of this Standard is to prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the Council's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

IAS 7 - Cash Flow Statements

The objective of this standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities.

IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in IAS 1 Presentation of Financial Statements.

IAS 16 - Property, Plant and Equipment

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

IAS 17 - Leases

The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases.

IAS 19 - Employee Benefits

The objective of this Standard is to prescribe the accounting treatment and disclosure requirements for employee benefits. The Standard requires an entity to recognise:

- (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- (b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

IAS 24 - Related Party Disclosures

The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit and loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

IAS 32 Financial instruments: Presentation

The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities should be offset.

IAS 36 - Impairment of Assets

The objective of this Standard is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognise an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets

The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount.

Inventories

Items of raw materials and stores the Council has produced to use on a continuing basis and which it has not yet used. Examples are consumable stores, raw materials and components purchased for incorporation into products for sale.

Investments (Pension Fund)

The investments of the Pension Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

Investments - Long Term

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can be clearly demonstrated or where there are restrictions as to the investors ability to dispose of the investment.

Investment Properties

Interest in land and/or buildings in respect of which construction work and development have been completed, and which is held for its investment potential.

Joint Venture

An entity in which the reporting authority has an interest on a long-term basis and is jointly controlled by the reporting authority and one or more other entities under a contractual or other binding arrangement.

Liability

A liability is where an authority owes payment to an individual or another organisation:

- A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.
- A deferred liability is an amount which, by arrangement is payable beyond the next year at some point in the future, or to be paid off by an annual sum over a period of time.

Lender Option Borrower Option (LOBO)

The common feature of these loans is a reduced interest rate for an initial period and then a stepped increase to the end of the term. The lender can opt to increase the interest rate payable at the end of the initial period. If the lender opts to increase the interest rate payable above the fixed rate then the borrower can either agree to this increase and continue to repay the loan up to the maturity date or can reject the new terms and repay the loan in full (without penalty). The inclusion of options within LOBO's means the loans effectively become variable rate instruments and under FRS 4, interest should be averaged over the period to the earliest date at which the instrument would be redeemed or cancelled on exercise of such an option rather than the original term of the instrument where there is uncertainty over the term of the instrument.

Loans Outstanding

The total amounts borrowed from external lenders for capital and temporary revenue purposes but not repaid at the balance sheet date.

Materiality

The concept that the Statement of Accounts should include all amounts which, if omitted or mis-stated, could be expected to lead to distortion of the financial statements to a reader of the statements.

Minimum Revenue Provision (MRP)

Represents the minimum amount that must be charged to a revenue account in each financial year to repay external borrowings.

Net Book Value

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amount provided for depreciation and any impairment losses.

Net Current Replacement Cost

The cost of replacing an asset in its existing condition and use.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

National Non-Domestic Rates (NNDR)

NNDR Poundage is set annually by Central Government based on the assessed value of properties used for business purposes and is collected by charging authorities. The proceeds are redistributed by the Government in accordance with the new business rates retention scheme.

Net Worth

The Council's value of total assets less total liabilities.

Non-Distributed Costs

These are overheads for which no user now benefits and as such are not apportioned to services.

Non-Operational Assets

Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. Examples of Non-Operational Assets are investment properties and assets that are surplus to requirements pending sale or development.

Operating Lease

An agreement in which the Council derives the use of an asset in exchange for rental payments, but where the risks and rewards of ownership are not transferred.

Operational Assets

Fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has a statutory or discretionary responsibility.

Past Service Costs (Pensions)

For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or the improvement to, retirement benefits.

Pension Scheme Liabilities

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Post Balance Sheet Events

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Precept

The levy made by precepting authorities on billing authorities, requiring the latter to collect income from council taxpayers on their behalf e.g. Police Authority, Fire Authority and Parish Councils.

Prior Year Adjustment

Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Private Finance Initiative (PFI)

PFI's are a method of funding/acquiring assets such as schools, but the supplier of the building is usually an agreed contractor or bidder, usually over a 25 year term. The Council pays for the use of the asset by means of a unitary charge and can acquire the asset after the term if included in the terms of the contract. Up until this point the Council does not own the asset and simply pays for the use of the asset. Government grant is available to assist authorities who enter into these agreements, however, known as PFI credits. These have a direct impact upon the level of government grant paid each year to help pay for the schemes.

Projected Unit Method

An accrued benefits valuation method in which the pension scheme liabilities make allowance for projected earnings. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

Property, Plant & Equipmnet (PPE)

Assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles

Provision

An amount put aside in the accounts for liabilities or losses which have occurred but uncertainty surrounds the exact amounts involved or the dates on which they will arise.

Provision for Credit Liabilities

This represents the sum set aside for the repayment of debt. This provision is subsumed within the capital financing reserve.

Prudence

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Prudential Framework

One of the principal features of the Local Government Act 2003 was to provide the primary legislative requirements to introduce a new prudential regime for the control of Local Authority capital expenditure. The regime relies upon both secondary legislation in the form of regulations, and a prudential code which has been published by CIPFA.

Under the prudential framework local authorities are free to borrow without specific government consent if they can afford to service the debt without extra government support. The basic principle is that authorities will be free to invest as long as their capital spending plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs all authorities must follow the prudential code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the Council before the start of the relevant financial year as part of their budget setting process.

Public Works Loan Board (PWLB)

This is a Central Government Agency which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the Government itself can borrow.

Rateable Value

The annual assumed rental value of a hereditament, (inheritable property), which is used for NDR purposes.

Related Parties

Two or more parties are related, when at any one time during the financial period:

- one party has direct or indirect control of the other party; or
 - the parties are subject to common control from the same source; or
 - one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
-
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Related Party Transactions

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund;
- the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- the provision of services to a related party, including the provision of pension fund administration services;
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as council tax, rents and payments of benefits.

The materiality of related party transactions is judged not only in terms of their significance to the Council, but also in relation to its related party.

Remuneration

Includes taxable salary payments to employees less employees' pensions contributions, together with non-taxable payments when employment ends, taxable expense allowances and any other taxable benefits.

Reserves - Usable

The accumulation of surpluses, deficits and appropriations over past years. Useable Reserves of a revenue nature can be released to spend on services or added to for future spending on services.

Reserves - Unusable

Unuseable reserves are reserves that in simple terms balance the Council's Balance Sheet and cannot be released to spend on services e.g. the Revaluation Reserve records the effect of revaluing fixed assets and is not available for general use in the financing of capital expenditure.

Residual Value

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

Revaluation Reserve

This Reserve records the accumulated gains on the fixed assets held by the Council arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).

Revenue Balances

These are accumulated surpluses on the General Fund. They can be applied to reduce borrowing, reduce council tax, or held to be applied in future years.

Revenue Contributions

The method of financing capital expenditure directly from revenue. The Council may determine that certain capital schemes should be financed in this way or alternatively may include a prescribed sum in the revenue budget for this purpose.

Revenue Expenditure

The day-to-day expenses of providing services. It is usually of a constantly recurring nature and produces no permanent asset, e.g. salaries, wages, supplies and services, and debt charges.

Revenue Expenditure Funded by Capital Under Statute (REFCUS)

Items of capital expenditure, which do not result in, or remain matched by, tangible fixed assets. Revenue Expenditure funded by Capital under Statute is charged to revenue in the year in which the expenditure is incurred.

Revenue Support Grant

This is a Central Government grant to authorities, contributing towards the cost of their services. It is based on the Government's assessment of how much an authority needs to spend to provide a standard level of service.

SeRCOP

CIPFA's Service Reporting Code of Practice establishes proper practices with regard to consistent financial reporting for services in England and Wales. It is given legislative backing by regulations which identify the accounting practices it propounds as proper practice under the Local Government Act 2003. It aims to:

- a) Modernise the system of local authority accounting and reporting to meet the changed and changing needs of local government, particularly the duty of to secure and demonstrate Best Value in the provision of services to the community;
- b) Facilitate accurate comparison between both services and authorities;
- c) Strengthen the arrangements for recharging all support costs which may be reasonably charged to front-line services and in so doing bringing efficiency pressures to support services comparable to those of service providers to the community; and
- d) Represent best practice.

Scheme Liabilities

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Specific Grants

Government grants to Local Authorities in aid of particular services.

Temporary Borrowing / Investment

Money borrowed or invested for an initial period of less than one year.

Total Cost

The total cost of a service or activity includes all costs which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, support services and overheads, which need to be apportioned.

Trust Funds

Funds administered by the Council for such purposes as charities and specific projects.

Unapportionable Central Overheads

These are overheads for which no user now benefits and should not be apportioned to services.

Useful Life

The period over which the Local Authority will derive benefits from the use of a fixed asset.

Work In Progress

The cost of work done on an uncompleted project at the balance sheet date, which should be accounted for.

A copy of the Statement of Accounts is available on the Council's website on www.darlington.gov.uk

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AUDIT COMMITTEE
26 JULY 2018

ITEM NO.

TREASURY MANAGEMENT ANNUAL REPORT AND OUTTURN
PRUDENTIAL INDICATORS 2017/18

Responsible Cabinet Member - Councillor Stephen Harker, Efficiency and Resources Portfolio

Responsible Director - Paul Wildsmith, Managing Director

SUMMARY REPORT

Purpose of the Report

1. This report provides important information regarding the regulation and management of the Council's borrowing, investments and cash-flow. It is a requirement of the Council's reporting procedures and covers treasury activity for 2017/18. The report also seeks approval of the Prudential Indicators results for 2017/18 in accordance with the Prudential Code.

Summary

2. The financial year 2017/18 presented similar circumstances to 2016/17 with regard to treasury management. However, due to the low returns for cash investments new ways to improve investment returns were sought. It was agreed to look at alternative investment types to increase return. Cost of borrowing remained low throughout 2017/18 and the cost of shorter term borrowing will remain low for a number of years in the future.
3. During 2017/18 the Council complied with its legislative and regulatory requirements. The borrowing need (Table 1) was only increased for capital purposes.
4. At 31st March 2018 the Council's external debt was £160.161M which is £33.000M more than the previous year, this increase relates to externalising debt which was in the past internal ie use of reserves. This externalisation enabled the Council to invest in Property Fund units to increase investment return. The average interest rate for borrowing was down from 4.30% in 2016/17 to 3.84% in 2017/18. This reduction in the average rate of interest is due to a new mix of maturity dates to take advantage of the lower cost of borrowing for short term debt. Investments totalled £52.443M at 31st March 2018 (£21.000M at 31st March 2017) earning

interest of 0.31% on short term cash investments, 0.625% on longer term cash investments and 2.2% on Property Fund units net of costs.

5. Financing costs have been reduced during the year and a saving of £0.600M achieved from the original MTFP. The majority of the savings relate to the inclusion and purchase of Property Fund units in the investment portfolio, with the interest received reduced due to additional interest payments on debt and additional brokerage fees.

Recommendation

6. It is recommended that:
 - (a) The outturn 2017/18 Prudential Indicators within this report and those in **Appendix 1** be noted.
 - (b) The Treasury Management Annual Report for 2017/18 be noted.
 - (c) This report to be forwarded to Cabinet and Council, in order for the 2017/18 Prudential Indicators to be noted.

Reasons

7. The recommendations are supported by the following reasons:
 - (a) In order to comply with the Prudential Code for Capital Finance in Local Authorities.
 - (b) To inform members of the Performance of the Treasury Management function.
 - (c) To comply with the requirements of the Local Government Act 2003.

Paul Wildsmith
Managing Director

Background Papers

- (i) Accounting Records
- (ii) Annual Investment Strategy 2017/18
- (iii) Prudential Indicators and Treasury Management Strategy Report 2017/18

Elaine Hufford : Extension 5404

S17 Crime and Disorder	This report has no implications for crime and disorder
Health and Well Being	There are no issues relating to health and wellbeing which this report needs to address
Carbon Impact	There are no issues relating to carbon impact
Diversity	There are no specific implications for diversity
Wards Affected	The proposals affect all wards
Groups Affected	The proposals do not affect any specific group
Budget and Policy Framework	The report does not change the Council's budget or Policy framework but needs to be considered by Council
Key Decision	This is not an Executive decision
Urgent Decision	This is not an Executive decision
One Darlington: Perfectly Placed	The proposals in the report support delivery of the Community Strategy through appropriate and effective deployment of the Councils Resources
Efficiency	The report outlines movements in the national economic outlook that have enabled officers to take advantage of different types of Investments and changing interest rates to benefit the Revenue MTFP.
Impact on Looked After Children and Care Leavers	Does this report impact on Looked After Children or Care Leavers

MAIN REPORT

Information and Analysis

8. This report summarises:
 - (a) Capital expenditure and financing for 2017/18
 - (b) The Council's underlying borrowing need
 - (c) Treasury position at 31st March 2018
 - (d) Prudential indicators and compliance issues
 - (e) The economic background for 2017/18
 - (f) A summary of the Treasury Management Strategy agreed for 2017/18
 - (g) Treasury Management activity during 2017/18
 - (h) Performance and risk benchmarking
9. Throughout this report a number of technical terms are used, a glossary of terms can be found at the end of this report.

The Council's Capital Expenditure and Financing 2017/18

10. The Council undertakes capital expenditure on long term assets, which is financed either,
 - (a) immediately through capital receipts, capital grants, contributions and from revenue; or
 - (b) by borrowing.
11. Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council. The wider treasury activities also include managing the Council's cash flow, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost and then optimise performance.
12. Capital Expenditure forms one of the prudential indicators that are used to regulate treasury activity. Table 1 shows total capital expenditure and how this was financed, compared with what was expected to be spent and how this would have been financed. Actual expenditure was £98.973M less than planned, mainly due to not progressing the Loan Facility to Registered Social Landlords (RSL's). However the mix of funding differs from that which was expected as some schemes progressed quicker than others. This impacted slightly on borrowing needed to fund expenditure, resulting in £0.402M less borrowing need than expected at this time which excludes any loans to RSL's.

Table 1 – Capital Expenditure and Financing

	2016/17	2017/18		
	Outturn £m	Revised Estimate £m	Outturn £m	Variance £m
General Fund Capital Expenditure	19.911	22.240	24.797	2.557
HRA Capital Expenditure	14.185	17.164	15.634	-1.530
Loan Facility to RSL's		100.000	0	-100.000
Total Capital Expenditure	34.096	139.404	40.431	-98.973
Resourced by:				
Capital Receipts GF	1.464	3.093	5.534	2.441
Capital receipts Housing	0.641	0.000	0.985	0.985
Capital Grants	14.275	10.194	13.349	3.155
Capital Contributions	0.220	1.829	1.716	-0.113
Revenue	0.872	2.475	0.000	-2.475
Revenue (Housing)	11.743	15.988	13.424	-2.564
Total Resources	29.215	33.579	35.008	1.429
Borrowing needed to finance expenditure	4.881	105.825	5.423	-100.402

The Council's Underlying Borrowing Need

13. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). The figure is a gauge for the Council's debt position. It represents 2017/18 and prior years' net capital expenditure which has not yet been paid for by revenue or other resources.
14. The General Fund element of the CFR is usually reduced each year by a statutory charge to the revenue accounts called the Minimum Revenue Provision (MRP). The total CFR can also be reduced each year through a Voluntary Revenue Provision (VRP).
15. The Council's CFR for the year is shown in table 2, and represents a key prudential indicator. The CFR outturn for 2017/18 is £198.788M which is £100.402M lower than approved because of the lower borrowing need than expected for 2017/18. No MRP repayments were made on the General Fund debt in line with the report to Council on 23rd February 2017.

Table 2 - Capital Financing Requirement

	2016/17	2017/18		
	Outturn £m	Approved Indicator £m	31 March Actual £m	Variance £m
Opening Balance	175.917	180.169	180.169	0.00
Add adjustment for the inclusion of leases on the balance sheet under IFRS	16.230	15.017	15.017	0.00
Add Capital Expenditure financed by borrowing	4.881	105.825	5.423	-100.402
Less MRP/VRP General Fund			0	
Less MRP/VRP Housing	-0.629	-0.629	-0.629	0.00
Less MRP/VRP PFI	-1.213	-1.192	-1.192	0.00
Closing balance	195.186	299.190	198.788	-100.402

Treasury Position at 31 March 2018

16. Whilst the measure of the Council's underlying need to borrow is the CFR, the Assistant Director of Resources can manage the Council's actual borrowing position by:
- (a) borrowing to the CFR level; or
 - (b) choosing to utilise some temporary cash flows instead of borrowing ("under borrowing"); or
 - (c) borrowing for future increases in CFR (borrowing in advance of need, the "over borrowed" amount can be invested).
17. The financial reporting practice that the Council is required to follow (the Statement of Recommended Practice (SORP)), changed in 2007/08. Financial instruments (borrowing and investments etc.) must now be reported in the Statement of Accounts in accordance with national Financial Reporting Standards. The figures in this report are based on actual amounts borrowed and invested and so will differ from those in the Statement of Accounts.
18. The Council's total debt outstanding at 31st March 2018 was £160.161M. In addition to this, a liability of £13.825M relating to the PFI scheme and Finance Leases brings the total to £173.986M. The Council's revised CFR position was estimated to be £299.190M, which included £100.000M that related to possible loans to RSL's which were not realised in 2017/18. However, the actual out turn position was £198.788M. When comparing this to our actual borrowing of £173.986M this meant that the Council was "under borrowed" by £24.802M this "under borrowed" amount was financed by internal borrowing this means that the amount that could have been invested externally was reduced to cover this. The amount of under borrowing has reduced from 2016/17 to enable external investments to be made in Property Funds. The reduced under borrowed position still has the dual effect of reducing costs to the MTFP because borrowing costs are

generally greater than investment returns and it reduces counterparty risk by reducing our exposure to banks and other financial institutions.

19. The treasury position at the 31st March 2018, including investments compared with the previous year is shown in table 3 below.

Table 3 – Summary of Borrowing and Investments

Treasury Position	31 March 2017		31 March 2018	
	Principal £m	Average Rate %	Principal £m	Net annualised Average Rate %
General Debt - Fixed Rate Debt, Market and Public Works Loan Board (PWLB)	127.161	4.30%	135.161	4.08%
Property Fund Borrowing			25.000	1.17%
Total Debt	127.161	4.30%	160.161	3.84%
Cashflow Investments up to 6 months	12.000	0.44%	21.000	0.31%
Capital Investments over 6 months	9.000	0.79%	2.000	0.625%
Property Fund Investment -net of costs			29.433	2.2%
Total Investments	21.000		52.433	
Net borrowing position	106.161		107.728	

Prudential Indicators and Compliance Issues

20. Some prudential indicators provide an overview while others are specific limits on treasury activity. These indicators are shown below:
21. **Gross Borrowing and the CFR** – Over the medium term the Council's external borrowing, net of investments, must only be for capital purposes. Gross borrowing should therefore not, except in the short term, have exceeded the CFR for 2017/18 plus the expected changes to the CFR over 2018/19 and 2019/20 Table 4 highlights the Council's Gross borrowing position against CFR. The Council has complied with this prudential indicator.

Table 4 – Gross Borrowing Compared with CFR

	31 March 2016 Actual £m	31 March 2018 Approved Indicator £m	31 March 2018 Actual £m
Gross Borrowing Position	127.161	282.000	160.161
CFR Excluding PFI & leases	180.169	285.365	184.963
CFR	195.186	299.190	198.788

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

Table 5 – Key Prudential Indicators

	Actual 2016/17 £M	Original Approved Limits 2017/18 £M	Revised Approved Limits 2017/18 £M	Actual Total Liabilities Borrowing + PFI/ leases 2016/17 Maximum £M
Approved Indicator – Authorised Limit	142.178	205.616	310.616	173.986
Approved Indicator – Operational Boundary	142.178	195.825	295.825	173.986
Financing costs as a percentage of net revenue expenditure	4.19%	4.65%	4.01%	4.00%

25. At 31st March 2018 the total liabilities were £173.986m which is below both the approved Authorised Limit and the approved Operational Boundary. The Operational Boundary is the point at which we expect borrowing to be, but it can be lower or higher. Borrowing cannot exceed the Authorised Limit.
26. A further four prudential indicators are detailed in **Appendix 1**.

Economic Background for 2017/18

27. A summary of the general economic conditions that have prevailed through 2017/18 provided by Link Asset Services, the Council’s treasury management advisors is attached at **Appendix 2**.

Summary of the Treasury Management Strategy agreed for 2017/18

28. The revised Prudential Indicators anticipated that during 2017/18 the Council would need to borrow £105.825M to finance part of its capital programme including £100.000M of loans to RSL's.
29. The Annual Investment Strategy stated that the use of specified (usually less than 1 year) and non-specified (usually more than 1 year) investments would be carefully balanced to ensure that the Council has appropriate liquidity for its operational needs. In the normal course of the Council's business it is expected that both specified and non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.
30. Longer term instruments (greater than one year from inception to repayment) will only be used where the Council's liquidity requirements are safeguarded. An estimate of long term investments (over 1 year) were included in the report on the Prudential Indicators update these were as follows £30M for 2017/18, £50M for 2018/19 and £50M for 2019/20. Three investments of up to £10m each were made in 3 Property Funds during July August and December 2017. No other investments of over 1 year duration have been made during 2017/18.

Treasury Management Activity during 2017/18

Debt Position

31. **Borrowing** – this increased during 2017/18 by £33.000M in total

	PWL B			Market Loans (incl. other Local Authorities)			Total £M
	Amount £M	Length of Loan	Interest Rate	Amount £M	Length of Loan	Interest Rate	
New Loans taken							
	8.500	5 years	1.38%	5.000	1 year	0.53%	
	8.000	10 years	2.01%	5.000	1 year	0.42%	
	5.000	11 years	2.20%	3.500	1 year	0.46%	
				5.000	1 year	0.50%	
				5.000	2years	0.80%	45.000
Loans Repaid							
				-5.000	15years	3.82%	
				-5.000	2years	0.80%	
				-2.000	2years	0.99%	-12000
Total New Borrowing	21.500			11.500			33.000

32. The new borrowing of £33.000m was taken for various lengths of time at various interest rates as shown above.

33. Rescheduling – 1 loan of £5m with 11 years remaining at an interest rate of 3.82% was repaid early and replaced with a loan for 11 years at 2.20% producing net annual savings to the Council of £68.000 for the next 11 years

34. Summary of Debt Transactions –The consolidated rate of interest decreased from 4.30% to 3.84% due to the above transactions.

Investment Position

35. Investment Policy – the Council's investment policy for 2017/18 is governed by the DCLG Guidance which has been implemented in the annual investment strategy for 2017/18 approved by Council on 23 February 2017.

36. The investment activity during the year conformed to the approved Strategy and the Council had no liquidity difficulties.

37. Investments held by the Council consist of temporary surplus balances, capital receipts and other funds.

Table 6 - Temporary Surplus Cash Balances up to 6 months

	Original Budget 2017/18	Revised Budget 2017/18	Actual 2017/18
Monthly Average level of Investments	£8.878M	£18.500M	£20.000M
Average Rate of Return on Investment	0.35%	0.20%	0.31%
Interest Earned	£31,000	£37,000	£61,000

Table 7a – Longer Term 6 months to 5 years Cash

	Original Budget 2017/18	Revised Budget 2017/18	Actual 2017/18
Monthly Average level of Investments	0.00	£3.800M	£4.500M
Average Rate of Return on Investment	0.00%	0.50%	0.53%
Interest Earned	0.000	£19,000	£23,900

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

	Original Budget 2017/18	Revised Budget 2017/18	Actual 2017/18
Monthly Average level of Investments	0.0	£15.379M	£15.379M.
Average Rate of Return on Investment (gross)	0.0	3.62%	3.72%
Interest Earned (Gross)	0.0	£557,000	£571,600

Performance and Risk Benchmarking

38. A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance and these are shown in **Table 10**. Discrete security and liquidity benchmarks are relatively new requirements to the member reporting. These were first set in the Treasury Strategy report of the 25th February 2010.

39. The following reports the current position against the benchmarks originally approved.

40. Security – The Council’s maximum security risk benchmarks for the current portfolio of investments, when compared to historic default tables was set as follows:

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

41. **Table 8** shows that there has been a reduction in the historic levels of default over the year. This is mainly due to some longer term investments actually being made for shorter terms i.e. up to six months rather than 1 year as these investments were better value than longer term investments and were also a better fit with how the council was expecting to utilise investments. It also shows more emphasis being placed on counterparties with a higher credit rating.

42. The investment portfolio was maintained within this overall benchmark during this year as shown in **Table 8**.

Table 8

Maximum	Benchmark 2017/18	Actual June 2017	Actual October 2017	Actual January 2018	Actual March 2018
Year 1	0.077%	0.013%	0.013%	0.007%	0.007%

43. The counterparties that we use are all high rated therefore our actual risk of default based on the ratings attached to counterparties is virtually nil.
44. Liquidity – In respect of this area the Council set liquidity facilities/benchmark to maintain
- (a) Bank Overdraft £0.100M
 - (b) Liquid short term deposits of at least £3.000M available within a weeks’ notice.
 - (c) Weighted Average Life benchmark is expected to be 146 days with a maximum of 1year.
45. Liquidity arrangements have been adequate for the year to date as shown in Table 9.

Table 9

	Benchmark	Actual June 2017	Actual October 2017	Actual January 2018	Actual March 2018
Weighted Average life	146days to 1 years	132 days	103 days	111 days	83days

46. This benchmark includes fixed term investments are for up to 1 year with cash flow monies being invested in Money Market funds which can be accessed immediately.
47. Yield - In respect of this area performance indicators relating to interest rates for borrowing and investments were set with reference to comparative interest rates. For borrowing, the indicator is the average rate paid during the year compared with the previous year. Investment rates are compared with a representative set of comparative rates.

Table 10 – Performance Compared With Indicators

Borrowing	Average overall rate paid compared to previous years	2016/17 4.30%	2017/18 3.84%
Investments		DBC 2016/17	DBC 2017/18
Short term	Cash flow investment rate returned against comparative average rate	0.44%	0.31%
Long term	Capital investment rate returned against comparative average rates	0.79%	0.53%
Comparative rates used to compare DBC performance: -			
Comparative Rates		Short Term Investments	Long Term Investments
Overnight Bid Rate Overnight		0.20%	-
London Interbank Bid Rate 7 day		0.22%	-
London Interbank Bid Rate 1 month		0.23%	
London Interbank Bid rate 3 months		0.29%-	
London Interbank Bid rate 6 months		-	0.40
London Interbank Bid rate 12 months		-	0.60
Average External Comparators		0.24%	0.50%

48. As can be seen from the table, the actual investment rate achieved for both short and longer term investments exceeds the average of comparative rates.

Risk

49. The Council’s treasury management activities are regulated by a variety of professional codes, statutes and guidance:-

- (a) The Local Government Act 2003(the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity.
- (b) The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2017/18).
- (c) Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act.
- (d) The SI requires the Council to undertake any borrowing activity with regard to the CIFPA Prudential Code for Capital Finance in Local Authorities.

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

Treasury Management Budget

52. There are three main elements within the Treasury Management Budget :-
- (a) Long Term capital investments including Property Funds which earns interest, this comprises of the Council's revenue and capital balances, unused capital receipts, reserves and provisions.
 - (b) Cash flow interest earned – since becoming a unitary council in 1997, the authority has consistently had positive cash flow. Unlike long term capital investments it does not represent any particular sum but it is the consequence of many different influences such as receipts of grants, the relationship between debtors and creditors, cashing of cheques and payments to suppliers.
 - (c) Debt servicing costs – This is the principal and interest costs on the Council's long term debt to finance the capital programme.

Table 11 Changes to the Treasury Management Budget 2017/18

	£M	£M
Original Treasury Management Budget		1.618
Debt		
Add increased interest payable on debt	0.106	
Less further savings on MRP	-0.133	
Add additional annual premium on rescheduled debt	0.002	-0.025
Investments		
Less increased investment income including property funds		-0.648
Other Costs		
Add increased brokerage charges due to property funds		0.073
Outturn Treasury Management Budget 2017/18		1.018

53. The majority of the savings relate to the inclusion and purchase of Property Fund units in the investment portfolio, with the return reduced due to additional interest payments on debt and additional brokerage fees.

Conclusion

54. The Council's treasury management activity during 2017/18 has been carried out in accordance with Council Policy and within legal limits. Financing costs have been reduced during the year and a saving of £0.600M achieved from the original MTFP.

Outcome of Consultation

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

Additional Prudential Indicators not reported in the body of the report

		2016/17 Actual	2017/18 Approved Indicator	2017/18 Outturn
1	Upper limits on fixed interest rates (<i>against maximum position</i>)	79%	100%	83%
2	Upper limits on variable interest rates (<i>against maximum position</i>)	21%	40%	17%
3	Maturity structure of fixed rate borrowing (<i>against maximum position</i>)			
	Under 12 months	5.5%	25%	17%
	12 months to 2 years	7.9%	40%	3%
	2 years to 5 years	3.7%	60%	10%
	5 years to 10 years	1.6%	80%	5%
	10 years and above	81.3%	100%	65%
4	Maximum Principal funds invested greater than 364 days	£0M	£30M	£30M

The Economy and Interest Rates

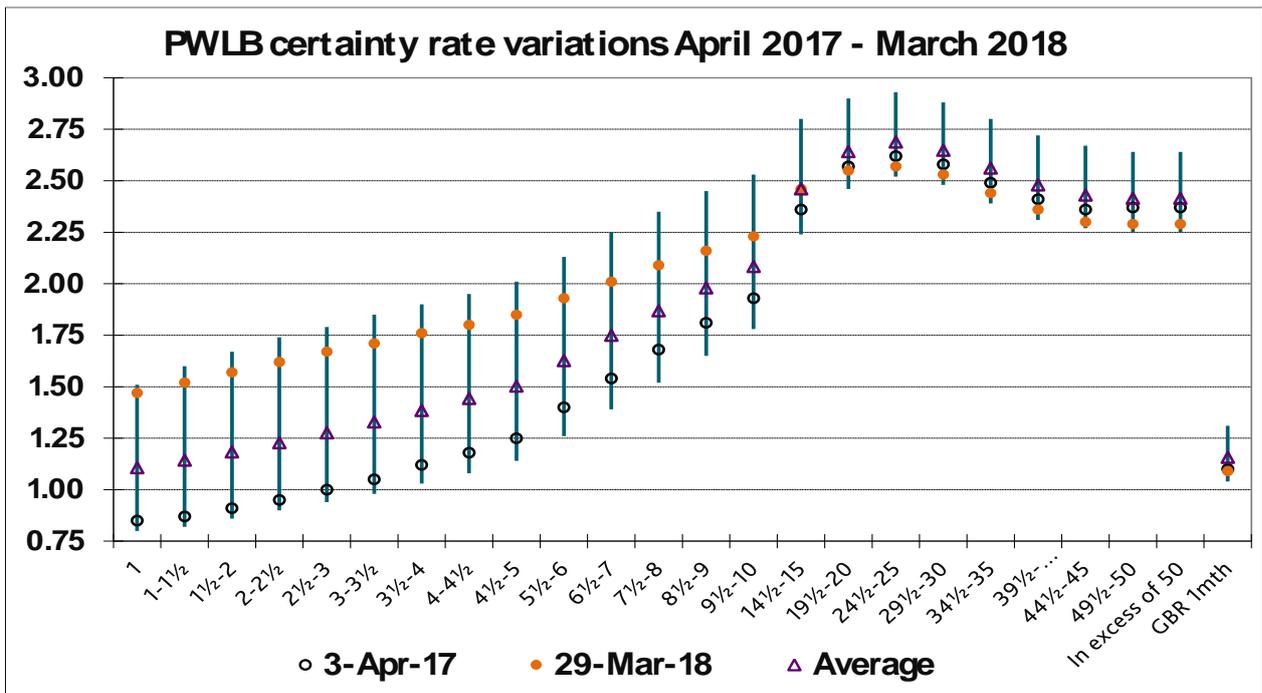
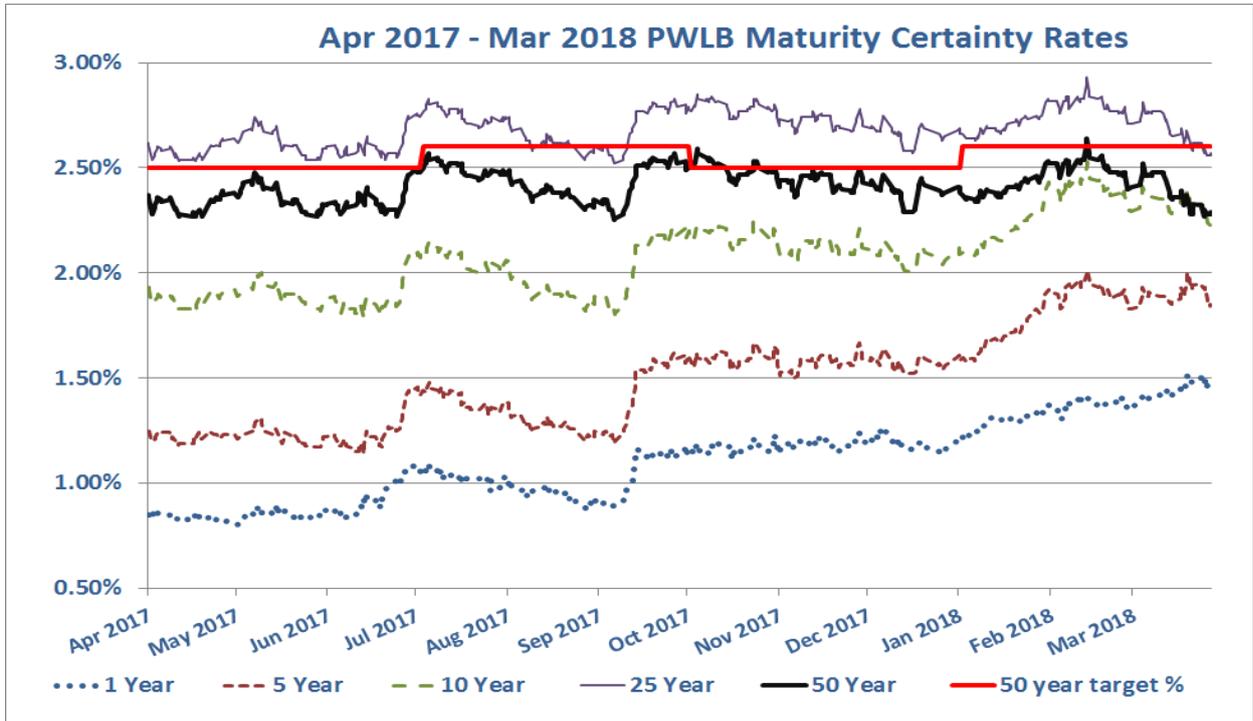
1. **UK.** The outcome of the EU referendum in June 2016 resulted in a gloomy outlook and economic forecasts from the Bank of England based around an expectation of a major slowdown in UK GDP growth, particularly during the second half of 2016, which was expected to push back the first increase in Bank Rate for at least three years. Consequently, the Bank responded in August 2016 by cutting Bank Rate by 0.25% to 0.25% and making available over £100bn of cheap financing to the banking sector up to February 2018. Both measures were intended to stimulate growth in the economy. This gloom was overdone as the UK economy turned in a G7 leading growth rate of 1.8% in 2016, (actually joint equal with Germany), and followed it up with another 1.8% in 2017, (although this was a comparatively weak result compared to the US and EZ).
2. During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year; quarter 1 came in at +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y), which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up in quarter 3 to 0.5% before dipping slightly to 0.4% in quarter 4.
3. Consequently, market expectations during the autumn rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The MPC meeting of 14 September provided a shock to the markets with a sharp increase in tone in the minutes where the MPC considerably hardened their wording in terms of needing to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered on this warning by withdrawing the 0.25% emergency rate cut which had been implemented in August 2016. Market debate then moved on as to whether this would be a one and done move for maybe a year or more by the MPC, or the first of a series of increases in Bank Rate over the next 2-3 years. The MPC minutes from that meeting were viewed as being dovish, i.e. there was now little pressure to raise rates by much over that time period. In particular, the GDP growth forecasts were pessimistically weak while there was little evidence of building pressure on wage increases despite remarkably low unemployment. The MPC forecast that CPI would peak at about 3.1% and chose to look through that breaching of its 2% target as this was a one off result of the devaluation of sterling caused by the result of the EU referendum. The inflation forecast showed that the MPC expected inflation to come down to near the 2% target over the two to three year time horizon. So this all seemed to add up to cooling expectations of much further action to raise Bank Rate over the next two years.

4. However, GDP growth in the second half of 2017 came in stronger than expected, while in the new year there was evidence that wage increases had started to rise. The 8 February MPC meeting minutes therefore revealed another sharp hardening in MPC warnings focusing on a reduction in spare capacity in the economy, weak increases in productivity, higher GDP growth forecasts and a shift of their time horizon to focus on the 18 – 24 month period for seeing inflation come down to 2%. (CPI inflation ended the year at 2.7% but was forecast to still be just over 2% within two years.) This resulted in a marked increase in expectations that there would be another Bank Rate increase in May 2018 and a bringing forward of the timing of subsequent increases in Bank Rate. This shift in market expectations resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.
5. **PWLB borrowing rates** increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to US treasuries. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.
6. As for equity markets, the FTSE 100 hit a new peak near to 7,800 in early January before there was a sharp selloff in a number of stages during the spring, replicating similar developments in US equity markets.
7. The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets. However, sterling did suffer a sharp devaluation against most other currencies, although it has recovered about half of that fall since then. Brexit negotiations have been a focus of much attention and concern during the year but so far, there has been little significant hold up to making progress.
8. The manufacturing sector has been the bright spot in the economy, seeing stronger growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, the manufacturing sector only accounts for around 11% of GDP so expansion in this sector has a much more muted effect on the average total GDP growth figure for the UK economy as a whole.
9. **EU.** Economic growth in the EU, (the UK's biggest trading partner), was lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of quantitative easing to stimulate growth. However, growth eventually picked up in 2016 and subsequently gathered further momentum to produce an overall GDP figure for 2017 of 2.3%. Nevertheless, despite providing this massive monetary stimulus, the ECB is still struggling to get inflation up to its 2% target and in March, inflation was still only 1.4%. It is, therefore, unlikely to start an upswing in rates until possibly towards the end of 2019.

10. **USA.** Growth in the American economy was volatile in 2015 and 2016. 2017 followed that path again with quarter 1 at 1.2%, quarter 2 3.1%, quarter 3 3.2% and quarter 4 2.9%. The annual rate of GDP growth for 2017 was 2.3%, up from 1.6% in 2016. Unemployment in the US also fell to the lowest level for 17 years, reaching 4.1% in October to February, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has been the first major western central bank to start on an upswing in rates with six increases since the first one in December 2015 to lift the central rate to 1.50 – 1.75% in March 2018. There could be a further two or three increases in 2018 as the Fed faces a challenging situation with GDP growth trending upwards at a time when the recent Trump fiscal stimulus is likely to increase growth further, consequently increasing inflationary pressures in an economy which is already operating at near full capacity. In October 2017, the Fed also became the first major western central bank to make a start on unwinding quantitative easing by phasing in a gradual reduction in reinvesting maturing debt.
11. **Chinese economic growth** has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.
12. **Japan.** GDP growth has been improving to reach an annual figure of 2.1% in quarter 4 of 2017. However, it is still struggling to get inflation up to its target rate of 2% despite huge monetary and fiscal stimulus, although inflation has risen in 2018 to reach 1.5% in February. It is also making little progress on fundamental reform of the economy.

PWLB certainty maturity borrowing rates 2017/18

13. As depicted in the graph and tables below and in appendix 3, PWLB 25 and 50 year rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of the year and reached peaks in February / March.
14. During the year, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.50% in quarters 1 and 3 and 2.60% in quarters 2 and 4.
15. The graphs and tables for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
3/4/17	0.850%	0.870%	1.000%	1.120%	1.250%	1.930%	2.620%	2.370%	1.100%
29/3/18	1.470%	1.520%	1.670%	1.760%	1.850%	2.230%	2.570%	2.290%	1.090%
High	1.510%	1.600%	1.790%	1.900%	2.010%	2.530%	2.930%	2.640%	1.310%
Low	0.800%	0.820%	0.940%	1.030%	1.140%	1.780%	2.520%	2.250%	1.040%
Average	1.107%	1.143%	1.276%	1.384%	1.503%	2.083%	2.688%	2.415%	1.157%
Spread	0.710%	0.780%	0.850%	0.870%	0.870%	0.750%	0.410%	0.390%	0.270%
High date	21/03/2018	21/03/2018	21/03/2018	21/03/2018	15/02/2018	15/02/2018	15/02/2018	15/02/2018	21/03/2018
Low date	03/05/2017	03/05/2017	30/05/2017	15/06/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017	04/04/2017

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/17	0.85%	1.25%	1.93%	2.62%	2.37%
31/3/18	1.47%	1.85%	2.23%	2.57%	2.29%
Low	0.80%	1.14%	1.78%	2.52%	2.25%
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017
High	1.51%	2.01%	2.53%	2.93%	2.64%
Date	21/03/2018	15/02/2018	15/02/2018	15/02/2018	15/02/2018
Average	1.11%	1.50%	2.08%	2.69%	2.41%

Money market investment rates 2017/18

	7 day	1 month	3 month	6 month	1 year
1/4/17	0.111	0.132	0.212	0.366	0.593
31/3/18	0.364	0.386	0.587	0.704	0.878
High	0.366	0.390	0.587	0.704	0.879
Low	0.099	0.122	0.140	0.273	0.461
Average	0.215	0.233	0.286	0.401	0.606
Spread	0.267	0.268	0.447	0.432	0.418
High date	27/2/18	22/3/18	29/3/18	29/3/18	28/3/18
Low date	4/7/17	10/8/17	7/8/17	7/9/17	6/9/17

Glossary of Terms

Capital Financing Requirement (CFR)	This is the Councils underlying need to borrow which can be traced back to the Councils Balance Sheet and the value of the Councils assets which have yet to be paid for.
Minimum Revenue Provision (MRP)	Monies set aside from the revenue budget to repay accumulated debt.
Call	Investments that can be returned without a period of notice
Counterparty	Institutions, Banks etc. that with make investments or take out loans with.
Specified Investments	Investments in Banks and Building Societies with a high credit rating for periods of less than 1 year
Non-Specified Investments	Investments in un rated Building Societies and any investments in Banks and Building Societies for more than 1 year.
Operational Liquidity	Working Cash flow
Authorised Limit	Maximum amount of borrowing that could be taken in total.
Operational Boundary	The expected amount of borrowing assumed in total.
PWLB	Public Works Loan Board. The Governments lending body to Local Authorities
Discount	Amount payable by the PWLB when loans are repaid if the current loan rate is less than the rate borne by the original debt
Yield Curve	Is a graph that shows the relationship between the interest rate paid and length of time to repayment of a loan.
Gilts	Government Borrowing Bonds
Spreads	The difference between the highest rate of interest and the lowest rate of interest earned/charged on any one particular maturity period i.e. 1 year, 2 year 5 year etc.
LIBID	London Interbank Bid Rate. The average rate at which a bank is willing to borrow from another bank.
LIBOR	London Interbank Offer Rate. The average rate at which a bank is willing to lend to another bank. LIBOR is always higher than the corresponding bid rate and the difference between the two rates is known as the spread.

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AUDIT COMMITTEE
26 JULY 2018

ITEM NO.

MANAGERS' ASSURANCE STATEMENTS

SUMMARY REPORT

Purpose of the Report

1. To report outcomes from the completed 2017/18 Managers' Assurance Statements (MAS).

Summary

2. The report emphasises that MAS are a key element of the Council's corporate governance arrangements and based on the 2017/18 returns concludes that generally an overall positive position was identified. The common improvement theme highlighted was the need to review and test Business Continuity Plans for identified priority service areas. This matter is to be progressed by Assistant Directors during 2018/19.

Recommendation

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

Reason

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

Paul Wildsmith
Managing Director

Background Papers

Managers' Assurance Statements 2017/18

Lee Downey: Extension 5451

S17 Crime and Disorder	The MAS includes reference to the need for staff to be aware of and understand the requirements of the Council's Anti-Fraud and Corruption arrangements.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Information and Analysis

5. Annual MAS are a key element of the Council's corporate governance arrangements and an integral part of the framework that supports the production of the Annual Governance Statement (AGS).
6. MAS have been formally completed for a number of years and this Committee has previously received reports on the outcomes that depicted a largely positive position.
7. The MAS takes the form of a standard template covering the key aspects of the Council's internal control environment on which assurance is required. This coverage is wide ranging and includes risk and financial management, health and safety, information governance and HR arrangements etc. In providing this assurance the MAS also states that *'the system of internal controls is designed to manage rather than eliminate the risk of failure to achieve objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness'*.
8. Statements have been completed by all Assistant Directors, endorsed by the appropriate Director, covering their areas of responsibility in 2017/18. They are published on the intranet at:

<http://intranet.darlington.gov.uk/services-search/financial-services/corporate-governance/annual-governance-statement/managers-annual-assurance-statements/>

9. The common improvement theme highlighted was the need to review and test Business Continuity Plans for identified priority service areas. This matter is to be progressed by Assistant Directors during 2018/19.
10. Other matters raised in the 2017/18 MAS included ensuring inventories are up to date, robust information governance arrangements are in place, providing training on equalities and the Council's anti-fraud and corruption arrangements and reviewing health and safety arrangements.

Conclusion

11. Generally the review of the 2017/18 MAS has identified an overall positive position. All of the identified improvement themes are to be progressed by Assistant Directors during the 2018/19 financial year.

Outcome of Consultation

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

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ANNUAL RISK MANAGEMENT UPDATE REPORT 2018/19

SUMMARY REPORT

Purpose of the Report

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

Summary

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

Recommendation

3. It is recommended that 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.

**Paul Wildsmith
Managing Director**

Background Papers

- (i) Council's Risk Management Strategy
- (ii) Corporate and Group Risk Registers
- (iii) Risk Management Report to Audit Committee December 2017

Elaine Hufford 5404

S17 Crime and Disorder	This report has no implications for crime and disorder
Health and Well Being	There is no specific health and well-being impact
Carbon Impact	There is no specific carbon impact
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally
Groups Affected	All groups are affected equally
Budget and Policy Framework	This report does not recommend a change to the Council's budget or policy framework
Key Decision	This is not a key decision
Urgent Decision	For the purpose of the 'call-in' procedure this does not represent an urgent matter
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements
Efficiency	Insurance premiums reflect the pro-active approach taken to risk management within the Council.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

MAIN REPORT

Background

5. Risk Management is an essential part of effective and efficient management and planning and it strengthens the ability of the Council to achieve its objectives and enhance the value of services provided. It is also an important element in demonstrating continuous improvement as well as being part of the Council's Local Code of Corporate Governance that reflects the requirements of the 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, are identified together with the officer responsible for managing that risk. These risks are plotted on to a standard likelihood and impact matrix with reference to management controls in place and working. The shaded part of the matrix signifies the area above the 'risk appetite line'. Risks in this region require further specific management i.e. are priorities for improvement that have an appropriate improvement action plan. Risk matrices, that reflect the updated Council structure from 1st June 2018, are attached at Appendices A-D and show the current Council Corporate and Group risks.

7. All risks are continually managed during the year by Corporate and Group Management Teams including any emerging risks identified. In addition, Assistant Directors are required to confirm in their Annual Assurance Statements 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.
8. The information that follows, provided by appropriate Group staff, details progress made on improvement actions for those risks identified as above the risk appetite line.
 - (a) **Corporate Risks (Appendix A)** – one corporate risk has been identified.

(C5) Council unable to meet its obligations under information governance agenda.

- (i) As reported to the March 2018 Audit Committee, the Council has made steady progress against the General Data Protection Regulations (GDPR) compliance programme. The Data Protection Officer (DPO) has undertaken an extensive awareness raising campaign to ensure decision makers and key people are aware that the law has changed. The DPO has also written a GDPR training course to replace the existing mandatory data protection training course on Academy 10. The Council's Tender Documentation and Special and Standard Contract Terms and the Contract Particulars have been updated to ensure they comply with the GDPR and Information Asset Owners have been advised to issue variations to existing contracts. In order to ensure data protection is considered at the conception of new projects the requirement to seek GDPR advice has been embedded into the Council's existing project management process, ICT procurement documentation and the committee report approval process. The Council has also made significant progress in compiling a comprehensive record of its processing activities, following the approval of the Information Asset Register (IAR) template by the Systems and Information Governance Group (SIGG) and reasonable progress in making privacy notices available on the website. Internal Audit issued their final audit entitled Data Protection - GDPR / Data Protection Act 2018 on 5 July 2018 which concluded there is full assurance provided and a sound system of internal controls is currently being applied which will ensure the system achieves its objectives.

- (b) **Children and Adults (now includes the Commissioning Group and Public Health) (Appendix B)** – five risks have been identified

(C & A1) Inability to contain placement costs for children looked after due to lack of sufficient in house placements.

- (i) A full Transformation and Efficiency programme is being delivered with the key objective of developing sufficient provision within or close to Darlington that meet the projected needs of the looked after children

population. This will include in-house foster care, residential provision and specialist provision for complex needs.

Due to the changing complexities and the demand for placements not just locally, but also regionally and nationally, the work will be informed by other localities, and joint working will take place where this can add value.

(C & A 5) Failure to identify vulnerable schools and broker appropriate support to address needs.

- (ii) Academies that are underperforming are discussed with the Regional Schools Commissioner (RSC) who has responsibility for academies. Support is brokered or commissioned by the RSC for academies that are under-performing. Vulnerable schools are identified through review of performance data and other contextual information on a termly basis. The Local Authority has responsibility for its maintained schools. The schools@onedarlington initiative is aiming to facilitate a sector led improvement model in Darlington. This will identify support needs in individual schools and where capacity and expertise may be available in other settings.

(C & A 6) Budget savings not realised through services promoting and supporting independence in the community.

- (iii) The Transformation Programme for Adult Services has a number of work streams, one being Maximising Independence. This has a robust project plan developed. Cases for reassessment and review have been planned, based on activity and finance data. In line with national best practice the service has adopted a strength based approach to maximising independence. This approach has enabled the council to deliver positive outcomes while also delivering its efficiencies targets. Robust financial monitoring continues to be undertaken.

(C & A 8) Increased demand for services impacts negatively on plans for budget efficiencies.

- (iv) The Transformation Programme continues to remodel and redesign the way Adult Social Care is delivered in Darlington. All four key work streams contribute to how demand is being managed. There is a specific work stream that is redesigning the way enquiries are screened and dealt with, to improve efficiency and effectiveness of contacts. This is progressing well, with the online directory live from March 2018.

(C & A 12) Failure to re-procure an integrated sexual health service and impact of people accessing sexual health services.

- (v) Procurement timeline is in place and the new service will be operational from 01/08/18. The procurement process is complete. Provider has been identified and the "Intention to award" notice has been issued. The mobilisation period commenced on 1st May 2018.

- (c) **Economic Growth & Neighbourhood Services Group (Appendix C)** – no risks have been identified as above the appetite line.
- (d) **Resources Group (Appendix D)** – no risks have been identified as above the appetite line

Operational Risk Outcomes

9. The Insurance Group continues to meet representatives of the Council's insurers to examine insurance claims. The Insurers are able to provide the Group with an update in relation to trends and operational risks to enable continuous improvement to the safety culture within the organisation.
10. The organisation has over 70 health and safety champions. Champions are Assistant Director (AD) appointed and receive health and safety training and meet regularly with AD's and play a key role in raising awareness, monitoring work practices and communicating health and safety messages.
11. The Corporate Health and Safety Policy has been reviewed along with the General Statement of Intent. The Policy booklet and tool box talk was issued to employees in December 2017. Employees with access to a PC will be able to access the Policy and through Academy 10 complete an assessment of understanding. The 'Think Safety' commitment poster has also been updated and signed by AD's and has been displayed within council buildings.
12. The organisation has continued to work at raising awareness of the benefits of near miss reporting, encouraging managers to talk about the benefits of near miss reporting and through the presentation of a tool box talk. A monthly near miss summary report is circulated to managers for discussion at team meetings and serves to highlight issues that might affect other services and identify action taken to address near miss incidents.
13. A council wide incident management system is being developed as part of the HR management system. The system will allow employees to report health and safety incidents (accidents and near misses), to their manager more easily and provide real-time data for managers and the Health and Safety Team to assist in the monitoring of health and safety performance.
14. A Corporate wide Driving at Work Arrangement has been introduced which brings together existing council procedures for managing risks associated with driving i.e. medical fitness risk assessments and health surveillance, however, in addition it also introduces a number of additional requirements to further reduce the risk. New requirements include a driver profile and declaration which must be completed at 6 monthly intervals, a 'Driving at Work & Road Safety' module on Academy 10 and wider completion of on-road practical assessments.
15. It was previously reported that a review of working practices had been completed by the Health and Safety Unit working with the Highway Construction Section and implementation has seen a reduction in the total amount of cable strikes noted by

the service. Services are continuing to monitor this closely. Additional HSG47 training covering excavation works has been completed by all managers, site supervisors, foreman and operatives in February 2018. During the period 1 March 2018 to 16 May 2018 there had been no cable strikes in the service area with monitoring to continue.

16. Method statements and risk assessments are available for reference and have been issued to site personnel along with tool box talks. Previously all street lighting teams had insulated tools for excavating but this has now been extended to all civil engineering teams who carry out excavations.
17. The three year column replacement and LED installation programme has come to an end with 4000 street lighting columns over 40 years old have been replaced. The installation of LED lanterns will reduce the amount of faults and therefore help to light the highways and make them safer for all users during the hours of darkness.
18. A programme for the replacement of illuminated bollards, with highly reflective, impact resistant bollards on traffic islands, is nearing completion. This work should help reduce the amount of damage to the bollards as they designed to bounce back and therefore reduce the need for operatives to work in the centre of the road to carryout repairs. In addition there will not be an electricity supply to the traffic island which eliminates possible electric shocks as a result of an accident.
19. Following the wet winter the Council repaired 4,377 potholes in the first 4 months of 2018, compared with 2,240 in the same period last year. Central government has allocated an extra £185,000 to the Council this year from its Pothole Fund. This funding is contributing to an increase in patching, micro-asphalt surfacing & surface dressing. This work will help seal the road surfaces & reduce the risk of potholes forming in these areas next winter.

Conclusion

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

Outcome of Consultation

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

RISK MATRIX
CORPORATE RISK REGISTER

LIKELIHOOD	A Very High				
	B High				
	C Significant			5	
	D Low			3, 4, 15, 16	
	E Very Low		1		
	F Almost Impossible				
		IV Negligible	III Marginal	II Critical	I Catastrophic
IMPACT					

CORPORATE RISK REGISTER

Risk No.	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
C1	Implementation of recommendations from the Capital Process Review is needed to improve effective capital project management	Ian Williams	None at E/III		
C3	Corporate Premises Risks	Paul Wildsmith	None at D/II		
C4	Business Continuity Plans not in place or tested for key critical services.	Ian Williams	None at D/II		
C5	Council unable to meet its obligations under the information governance agenda.	Paul Wildsmith	None at C/II		See main body of report at paragraph 8 (a) i

Risk No.	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
C15	Not maximising the opportunity for Darlington Borough Council that is brought about by being part of the Combined Authority with devolved powers and new transport opportunities for the North.	Paul Wildsmith	None at D/II		
C16	Children's Services unable to exit DfE intervention arrangements following Ofsted's "Inadequate" judgement owing to failure to achieve the necessary service improvements	Suzanne Joyner	Moved from C/II to D/II	Re-inspection completed, Ofsted judgement improved from Inadequate to Requires improvement to be Good, resulting in formal intervention ceasing	

RISK MATRIX

CHILDREN, ADULTS AND PUBLIC HEALTH

LIKELIHOOD	A Very High				
	B High			6	
	C Significant		13, 9, 10	1, 5, 8, 12	
	D Low			3, 4, 7	
	E Very Low				
	F Almost Impossible				
		IV Negligible	III Marginal	II Critical	I Catastrophic
IMPACT					

CHILDREN, ADULTS AND PUBLIC HEALTH RISK REGISTER

Risk No.	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
C&A 1	Inability to contain placement costs for children looked after due to lack of sufficient in house placements.	Jane Kochanowski	None at C/II		. See main body of report at paragraph 8 (b) i
C&A 3	Inability to recruit and retain sufficient qualified suitably experienced social workers in Children and Adult's Services impacts on cost and quality of service.	Jane Kochanowski/ James Stroyan	Moved from C/II to D/II	Vacancy rate is now within normal business parameters for both Children and Adults' Services	
C&A 4	Insufficient school places to meet parental preferences and expansion of house building in the borough.	Tony Murphy	Moved from C/III to D/II	Pupil place planning procedures are being enacted to ensure sufficient capacity in the system	
C&A 5	Failure to identify vulnerable schools and broker appropriate	Tony Murphy	None at C/II		See main body of report at paragraph 8 (b) ii

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	support to address needs				
Risk No.	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
C&A 6	Budget savings not realised through services promoting and supporting independence in the community.	Suzanne Joyner	Moved from B/II to C/II	Budget savings achieved in 17/18. Currently underspending on 18/19 budget	See main body of report at paragraph 8 (b) iii
C&A 7	Delivery of the outcomes of the Better Care Fund Plan approved by NHS England is not achieved	Christine Shields	None at D/II		
C&A 8	Increased demand for services impacts negatively on plans for budget efficiencies.	James Stroyan	None at B/II		See main body of report at paragraph 8 (b) iv

C&A 9	Market (Domiciliary Care Residential Care providers) failure following the Care Act/Living Wage	Christine Shields	None at C/III		
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Risk No.	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
C&A 10	The Deprivation of Liberty Safeguards Threshold changes significantly increases the amount of people deprived of their liberty resulting in potential for increased legal challenge	James Stroyan	None at C/III		
C&A 12	Risk now re-worded Failure to re-procure an integrated sexual health service and impact of people accessing sexual health services	Miriam Davidson	None at C/II		See main body of report at paragraph 8 (b) v
C&A 13	Changes to Education Funding, resulting in expected loss of grant income	Tony Murphy	None at C/III		

RISK MATRIX

ECONOMIC GROWTH & NEIGHBOURHOOD SERVICES GROUP

LIKELIHOOD	A Very High				
	B High				
	C Significant		9		
	D Low			1, 7, 8, 10, 13,14	
	E Very Low		15	12	
	F Almost Impossible				
		IV Negligible	III Marginal	II Critical	I Catastrophic
IMPACT					

ECONOMIC GROWTH GROUP RISK REGISTER

Risk No.	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
EG & NS 1	Investment in regeneration projects is not delivered	Ian Williams	None at D/II		
EG & NS 7	Financial implications of Maintaining and conserving key capital assets within the borough	Guy Metcalfe	None at D/II		
EG & NS 8	Ability to adequately address the affordable housing requirement	David Hand	None at D/II	.	
EG & NS 9	Delay to new Local Plan.	David Hand	None at C/III		
EG & NS 10	Complexity of delivering multiple Economic Growth sites to meet growing demands and ambitious timescales. (eg Central Park, Ingenium Park, Faverdale, Darlington Growth Hub, Morton Palms and other investment enquiry sites)	Dave Winstanley	None at D/II		

Risk No.	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
EG & NS 12	Planning Performance at risk of Standards Authority intervention	David Coates	None at E/II		
EG & NS 13 Previously RE 16	Significant impacts arising from the reduction in available cash/resources to the local economy, Council and businesses due to the impacts of Welfare Reform.	Pauline Mitchell	None at D/II		
EG & NS14 Previously RE 24	Operational risks associated with provision of services including Street Scene Environmental services Building services (Gas Legionella etc.) and the Lifeline service	Ian Thompson /Pauline Mitchell	None at D/II		
EG & NS 15 and RE 25	Risk of legal challenge on decisions made at Group level	Ian Thompson /Pauline Mitchell	None at D/III		

RISK MATRIX

RESOURCES GROUP

LIKELIHOOD	A Very High				
	B High				
	C Significant		1, 2, 9		
	D Low		3, 5, 25		
	E Very Low				
	F Almost Impossible				
		IV Negligible	III Marginal	II Critical	I Catastrophic
IMPACT					

RESOURCES GROUP RISK REGISTER

Risk No.	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
RE1	VAT (Planning expenditure in terms of capital)	Elizabeth Davison	None at C/III		
RE2	Fraud in General	Andrew Barber	None at C/III		
RE3	ICT security arrangements inadequate	Ian Miles	None at D/III		
RE5	Increased sickness absence adversely affects service delivery	Elizabeth Davison	None at D/III		
RE9	Instability within financial markets adversely impacts on finance costs and investments	Elizabeth Davison	None at C/III		
RE16 Now EG & NS 13	Significant impacts arising from the reduction in available cash/resources to the local economy, Council and businesses due to the impacts of Welfare Reform.	Pauline Mitchell		Shown on Appendix C Risk Matrix	

Risk No.	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
RE24 Now EG & NS14	Operational risks associated with provision of services including Street Scene Environmental services Building services (Gas Legionella etc.) and the Lifeline service	Ian Thompson /Pauline Mitchell		Shown on Appendix C Risk Matrix	
RE 25 and EG & NS 15	Risk of legal challenge on decisions made at Group level	Elizabeth Davison/ Luke Swinhoe/ Ian Miles	None at DIII		

AUDIT SERVICES ANNUAL AUDIT PLAN 2017/18 – ANNUAL REPORT

SUMMARY REPORT

Purpose of the Report

1. To provide Members with the annual report against the 2017/18 Annual Audit Plan in accordance with Audit Services' role and terms of reference.

Summary

2. The report outlines progress to date on audit assignment work, consultancy/contingency activity and performance indicators.
3. The shared service was a new service beginning 1 April 2017 and brought together two teams from different organisations as well as a new approach to delivering the audit opinion.
4. In relation to Audit Services' performance a detailed report is provided with all agreed work completed.

Recommendation

5. It is recommended that the annual report against the 2017/18 Annual Audit Plan be noted.

Reasons

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

**Andrew Barber
Audit & Risk Manager**

Background Papers

- (i) Internal Audit Charter
- (ii) Audit Assignment Executive Summaries

Andrew Barber: Extension 156176

S17 Crime and Disorder	Other than any special investigation work there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Information and Analysis

7. The Annual Audit Plan for 2017/18 was approved by the Audit Committee in March 2017 (Minute A48/March/17) and the Service was formally implemented on 1 April 2017.
8. 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.
9. As previously reported a significant amount have time was spent initially on team development and training.
10. Appendix 1 provides members with detailed feedback on the performance of the service and the position in relation to completion of the audit plan.
11. A small number of changes were made to the original agreed plan to manage a vacancy within the section, further details are provided in the attached report.

12. In line with good practice, at an appropriate time, Audit Services follow up with Managers progress on implementation of audit recommendations agreed in audit reports.
13. In addition, at the request of clients, consultancy work has been undertaken on specific projects. This time is recorded against Advice & Guidance in the attached appendix. These include:
 - replacement car park machines (Including PCI Compliance);
 - use of electronic signatures;
 - the partnership with Hullabaloo;
 - the online booking/payment system in the Dolphin Centre;
 - implementation of Mid-Call (Including PCI Compliance);
 - indoor market transfer;
 - support to the library service for the implementation of self-service kiosks (Including PCI Compliance).
14. The Shared Service has also responded to routine requests from Groups for advice and guidance on operational matters.

Outcome of Consultation

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

INTERNAL AUDIT ANNUAL REPORT & OPINION STATEMENTS

2017/18

1.0 EXECUTIVE SUMMARY

Introduction

- 1.1** Under the Accounts and Audit Regulations 2015, the Council is required to *“undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”*. For the purposes of the 2017/18 opinion the standards for proper practices for internal audit are laid down in the CIPFA Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (PSIAS).
- 1.2** The relevant body must conduct a review, at least once a year, of the effectiveness of its system of internal control. Following the review the Council must approve an Annual Governance Statement prepared in accordance with proper practices. The opinions given in this report provides independent and objective assurance on the overall adequacy and effectiveness of the Council’s system of internal control.
- 1.3** It is management’s responsibility to establish and maintain appropriate risk management processes, internal control systems, accounting records and governance arrangements. Internal Audit plays a vital role in advising management that these arrangements are in place and operating properly.

Quality Assurance and Improvement Programme

- 1.4** The Quality Assurance and Improvement Programme (QAIP) required by the PSIAS has been maintained during the year.

Planned Coverage and Output

- 1.5** The 2017/18 Audit Plan was approved by the Audit Committee on 24 March 2017. Best practice requires that audit resources should target those areas that represent the greatest risk to the Council.
- 1.6** In terms of audit engagements delivered by the audit team, the audit plan at the start of the year included 69 audits. The plan has to be flexible to allow for movement in the number of audits in the plan and days delivered to reflect changing client needs. The overall number of audit engagements will always be subject to change over the course of the year as audits may be deferred or no longer be required. Additional audits may be added if concerns are raised about a specific control area.

Original number of planned engagements	69
Unplanned engagements added	1
Planned engagements cancelled /deferred	6
Revised number of audit engagements	64
Engagements completed	64
Engagements ongoing	0

- 1.7** As can be seen from the table 64 reports have been issued, with no reports to be issued. This is covered in more detail in the audit coverage section of the report.

- 1.8 The plan for 2017/18 was based on 7 full time auditors plus 1 part time auditor and comprised 1,901 Gross Audit Days and 1,265 planned audit days including the unplanned allocation (Productive). A summary of the plan showing the budgeted and actual number of days is shown below.

2017/18 Audit Plan – Planned v Actual days

Audit Area	Planned Days	Actual Days	Difference
Total Productive (Completed Audits)	1141	889	252
Unplanned Provision	50	0	50
Unproductive time	633	861	-228
GROSS DAYS	1824	1750	74

Note – Figures exclude deferred audits

- 1.9 During the year one member of staff was absent due to maternity leave, the plan had already been adjusted to take account of this. This is the first year of the audit shared service with significant time set-aside for development of the service and training at the start of the year and this has had an impact on the productive time achieved this has resulted in the actual unproductive time being higher than planned. The service carried a vacancy for a significant period of time. Actual time spent on audits has been very carefully monitored to manage these variations.
- 1.10 These variations have not impacted on the ability of the Head of Internal Audit to provide assurance on the control environment as sufficient audit work has been completed.

Recommendations Made

- 1.11 Management continues to respond positively to audit reports and recommendations, with positive action taken to remedy any internal control weaknesses highlighted. The 65 audits completed have resulted in the following summary of recommendations made.
- 1.12 Analysis of Recommendations made in 2017/2018

Low	Medium	High	Critical	Total
10	40	5	0	55

This is covered in more detail in the output section.

Assurance Levels

1.13 The 64 completed audits resulted in the following assurance opinions being made.

Assurance Opinion	Number
Full	27
Substantial	24
Moderate	0
Limited	0
None	0
Opinion not applicable	13
TOTAL	64

Overall Assurance

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

- The written reports on all internal audit work completed during the course of the year and the subsequent audit opinions;
- Any follow up exercises undertaken in respect of previous years' internal audit work;
- The proportion of Stockton on Tees Borough Council's audit need that has been covered within this period;
- Any limitations which may have been placed on the scope of Internal Audit. (There have been no operational constraints placed upon Internal Audit, apart from agreed budgetary control provisions).

Opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework

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

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

Where weaknesses have been identified through internal audit work, we have worked with management to agree appropriate corrective actions and a timescale for introduction.

Statement of conformance with the PSIAS

A self-assessment of compliance with the PSIA has been undertaken using the checklist included in the CIPFA Local Government Application Note to the PSIA. The checklist runs to 35 pages and contains over 300 conformance targets.

This has been validated by an independent external assessor in-line with the requirements to undertake such a review at least once every 5 years.

The conclusion of the review is that the service conforms with the requirements of the standard. There are minor areas which may warrant further development but they do not have a material impact on the overall opinion.

The areas of non-compliance identified in the self-assessment and validated by the external review are as follows:-

- **Feedback is not sought from the Chair of the Audit Committee on the Audit & Risk Manager's performance appraisal,**
- **Assignments for on-going assurance engagements should be rotated periodically, this is not always possible given the size of the team and some areas that require technical expertise such as ICT. Audits are rotated wherever practical. This is mitigated by the code of conduct signed by auditors.**
- **Organisational independence expects the Audit and Risk manager to report to an organisational level equal to or higher than corporate management team. For line management purposes the Audit & Risk Manager reports to the Procurement and Governance Manager however this is mitigated by having a secondary reporting line to the Director of Finance & Business Services and other senior management and the Audit Committee as required.**

Many of the compliance targets relate to consulting engagements. As the Internal Audit Section does not undertake any such engagements, the answers to these questions have to be "no".

1 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)

2.1 Internal Audit is defined in the PSIAS as:-

“Internal auditing is an independent, objective and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

Adherence to the PSIAS ensures that Internal Audit complies with this definition.

2.2 In addition to the performance information shown below the following is evidence demonstrating Internal Audit’s compliance with the PSIAS:-

- Independence/no interference – There has been no interference during the year that would require the escalation processes to be invoked.
- Access to records – The service has been provided access to all records/personnel required to undertake the work in the plan.
- Director of Finance and Business Services’ operational responsibility – Appropriate arrangements have been put in place to allow an objective opinion of the other operational services for which the Director of Finance and Business Services has responsibility.
- Staff skills mix – An appropriate mix of staff has been in place throughout the year as defined in the audit competency framework.
- Staff training – Training has been given to staff as required including a staff away day. Staff have also completed a minimum of 20 hours CPD.
- Code of Conduct for Auditors – All auditors have signed up to an audit code of conduct and there is no evidence that this has not been complied with.

Performance Indicators

2.3 The PSIAS are unequivocal in that a QAIP must include both internal and external assessments: internal assessments are both ongoing and periodical and external assessments at least once every five years.

2.4 An independent external peer review was undertaken to assess the effectiveness of internal audit and compliance with the new standards. The review concluded:-

- The Internal Audit service complies fully with all key requirements of the Standards, and overall the level of compliance is very high.
- On the basis of the assessment and supporting evidence the Internal Audit service is shown to be well managed. It provides a good standard of service covering all key aspects of its remit and is well regarded and effectively utilised by senior management.
- No significant issues have been identified by the assessment process. The opportunities for improvement will improve service delivery and effectiveness, but they do not in themselves represent a material risk to the Internal Audit service or its ability to deliver the audit programme.

3 AUDIT PROGRESS

3.1 The plan, approved on 24 March 2017, was based on an audit assessment of risk drawn from a wide variety of sources including:-

- Findings from previous audit reports and knowledge of Council systems
- Input from Corporate Management Team and Heads of Service
- Corporate Risk Register
- Any areas highlighted by special investigations
- Susceptibility to Fraud
- Complexity of systems
- Service Provider
- Political/Media Sensitivity
- Levels of Finance/Budgets

Audit Progress by Service Group

Department	Planned Audits	Cancelled Audits	Unplanned Audits	Revised Audits	Completed	In Progress	Drafts Issued
Children's and Adult Services	15	0	0	15	15	0	0
Chief Executive	1	0	0	1	1	0	0
Neighbourhood Services & Resources	25	3	1	23	23	0	0
Xentrall	13	0	0	13	13	0	0
Economic Growth	12	3	0	9	9	0	0
Corporate	3	0	0	3	3	0	0
Schools	N/A			0	0	0	0
ICT Systems	N/A			0	0	0	0
Totals	69	6	1	64	64	0	0

Actual Days Compared to Planned Days

3.2 The tables below show an alternative view of the number of planned days v actual days for the completed audits.

Audit Area	Planned Days	Actual Days	Difference
Children's and Adult Services	161	133.2	27.8
Chief Executive	15	5.5	9.5
Neighbourhood Services & Resources	331	288.6	42.4
Xentrall	151	177.6	-26.6
Economic Growth & Development	110	135.0	-25.0
Grants	25	45.6	-20.6
Schools	15	20.6	-5.6
Advice & Guidance, Audit Liaison, Follow-Up	298	72.9	225.1
SBC & TVCA	35	10.2	24.8
Total Productive (Completed Audits)	1141	889.2	251.8

- 3.3** The Audit Plan is constantly revised during the year to take account of changing requirements. Amendments to the Plan agreed on 24 March 2017 can be summarised as follows:

2017/18 Planned Audits Amalgamated/Cancelled/Deferred

Name	Comments
Land Charges	Reduced resources, low risk audit.
PCI Compliance	Reduced resources, low risk audit. Advice & Guidance has still been provided but main assessment submission now completed by Xentrall
Security & Surveillance	Reduced resources, low risk audit.
Business Support & Development	Reduced resources, low risk audit.
Cash Offices & Cash Holdings	Reduced resources, low risk audit. Petty cash/Cash Income will still be checked during other audit work.
Enforcement	Reduced resources, low risk audit.

2017/18 Unplanned Audits Added to the Plan

Name	Audit Type	Comments
Markets Management	Limited Scope Audit	Close down for DBC Covered Market.

3.4 Follow-up Work

In addition to the audits contained within the Audit Plan for 2017/18, provision is made within the plan for Internal Audit to carry out follow up work on all recommendations that are made. During the year 11 audits were followed-up and of the 57 recommendations made in those audits, 36 were found to have been implemented and 12 were no longer applicable.

3.5 Counter Fraud

The Counter Fraud Strategy was revised during the year and presented to this committee in March 2018.

4 AUDIT OUTPUT

Engagement Opinions

4.1 For each audit carried out Internal Audit provides an overall conclusion as to whether a sound system of internal control is being maintained. Each opinion is either “Full”, “Substantial”, “Moderate”, “Limited”, or “No” assurance depending on the conclusions reached and the evidence to support those conclusions. “Full” and “Substantial” assurance normally indicates that the area under review has a reliable system of internal control.

4.2 These individual opinions are summarised below:-

Opinion	Definition	No.	%
Full	A sound system of internal controls is currently being applied which will ensure the system achieves its objectives. Whilst not essential there may still be scope for these controls to be enhanced in some areas.	27	42
Substantial	Overall there is a sound system of internal controls that are operating effectively. The system should achieve its objectives but there are areas where internal controls need to be improved.	24	38
Moderate	A reasonably sound system of internal controls is being applied, however, there are weaknesses which may put some of the system objectives at risk.	0	0
Limited	There is either a limited system of internal controls being applied, or there are significant weaknesses in the controls in place, which are posing a substantial risk to the achievement of system objectives.	0	0
None	The system of internal controls in place is failing and system objectives are not being met. Urgent management attention is required.	0	0
N/A	This classification covers audit work within a small part of a system. Providing an opinion on this work would misrepresent the system as a whole.	13	20
Total		64	

4.3 An analysis of the recommendations supporting these opinions by priority is shown below:-

Priority	Definition	No.	%
Critical	Actions that must be taken immediately to manage significant risks that are likely to prevent the Authority achieving one or more of its corporate objectives.	0	0
High	Actions that should be taken as a matter of priority due to the issues identified posing a substantial risk to the achievement of service/system objectives.	5	9
Medium	Required actions to reduce the risk of systems failing to achieve their objectives.	40	73
Low	Beneficial to the improvement of internal controls, which will support the achievement of objectives.	10	18
Total		55	

4.4 The following table shows the breakdown of recommendations by audit area.

Details of Audits by Service Group

2017/18

Department	No. of Audits Issued	Opinions						No. of Recs Made	Previous Recommendations			
		Full	Sub	Mod	Lim	None	N/A		Tested	Passed	Failed	N/A
Children's and Adult Services	15	2	6	0	0	0	6	9	9	3	0	2
Chief Executive	1	0	1	0	0	0	0	0	0	0	0	0
Neighbourhood Services & Resources	23	7	11	0	0	0	3	27	32	22	3	7
Xentrall	13	13	0	0	0	0	0	2	0	0	0	0
Economic Growth	9	2	4	0	0	0	3	8	12	8	2	2
Corporate	3	2	1	0	0	0	0	3	4	3	0	1
Schools	0	0	0	0	0	0	0	0	0	0	0	0
ICT Systems	0	0	0	0	0	0	0	0	0	0	0	0
Total	64	26	23	0	0	0	12	49	57	36	5	12

2016/17

Department	No. of Audits Issued	Opinions						No. of Recs Made	Previous Recommendations			
		Full	Sub	Mod	Lim	None	N/A		Tested	Passed	Failed	N/A
Children's and Adult Services	12		10		2			86				
Chief Executive												
Neighbourhood Services & Resources	16		16					97				
Xentrall	12	8	4					3				
Economic Growth	3		2				1	5				
Corporate	2		1				1	3				
Schools												
ICT Systems												
Total	45	8	33	0	2	0	2	194				

4.5 A further analysis of new recommendations by category is shown below.

Category		Low	Medium	High	Critical
Financial Management	Current	1	1	0	0
	Previous	2	22	6	0
ICT	Current	0	0	0	0
	Previous	1	0	0	0
Information Management	Current	0	0	0	0
	Previous	10	9	1	0
Procurement	Current	0	2	0	0
	Previous	4	9	0	0
Health & Safety	Current	0	0	0	0
	Previous	1	2	1	0
Risk Management	Current	0	0	0	0
	Previous	3	10	0	0
Asset Management	Current	0	0	0	0
	Previous	1	7	1	0
Business Continuity	Current	0	1	0	0
	Previous	0	2	0	0
Workforce Development	Current	0	0	0	0
	Previous	0	4	0	0
Fraud	Current	1	0	2	0
	Previous	2	4	0	0
Legislative / Constitutional Compliance	Current	2	0	0	0
	Previous	0	2	1	0
Ethical Governance	Current	0	0	0	0
	Previous	1	5	0	0
Performance Management	Current	2	0	0	0
	Previous	0	2	1	0
Partnership Management	Current	0	2	0	0
	Previous	0	0	0	0
Authorisation	Current	0	0	0	0
	Previous	0	0	2	0
Segregation of Duties	Current	0	0	0	0
	Previous	0	0	0	0
VAT	Current	0	0	0	0
	Previous	2	3	0	0
Safeguarding	Current	0	0	0	0
	Previous	1	6	1	0

4.6 Shown below is a list of all the audit engagements undertaken during the year together with their assurance opinion.

2017/18 Audit Plan Current Position as at 31 March 2018

Department	Audit ID	Name	Status	Assurance	Recommendations				F'work Comp On-Time?	Final Var	Final Issue On-Time?	
					L	M	H	C	83%	Bud	291.7	83%
Neighbourhood Services & Resources	2520	Housing Benefits	Complete	Substantial Assurance	0	0	0	0	Yes	18.0	8.9	Yes
Economic Growth	2521	Highways Maintenance Operational	Complete	N/A	0	0	0	0	Yes	13.0	13.0	Yes
Economic Growth	2522	Visitor Information Services 2017/18	Complete	Full Assurance	0	0	0	0	Yes	10.0	-0.1	Yes
Economic Growth	2523	Highways Maintenance Management	Complete	Substantial Assurance	0	0	0	0	Yes	10.0	-1.0	Yes
Xentrall	2524	Virtualisation	Complete	Full Assurance	0	0	0	0	Yes	6.0	2.5	Yes
Economic Growth	2525	Highways Inspection	Complete	N/A	0	0	0	0	Yes	7.0	7.0	Yes
Neighbourhood Services & Resources	2526	VAT	Complete	Full Assurance	0	0	0	0	No	6.0	-3.7	Yes
Neighbourhood Services & Resources	2527	Taxation	Complete	Full Assurance	0	1	1	0	Yes	12.0	4.2	Yes
Xentrall	2528	Server Operating Systems	Complete	Full Assurance	0	0	0	0	No	5.0	2.3	Yes
Xentrall	2529	Website & Intranet	Complete	Full Assurance	0	0	0	0	Yes	10.0	9.6	Yes
Economic Growth	2530	Security & Surveillance	Cancelled	N/A	0	0	0	0	Yes	20.0	20.0	Yes
Economic Growth	2531	Trading Standards	Complete	Substantial Assurance	0	2	0	0	Yes	30.0	-17.0	No
Children's and Adult Services	2532	Section 17 Payments	Complete	N/A	0	0	0	0	Yes	4.0	-19.9	No
	2533	Stockton Collections	Complete	N/A	0	0	0	0	Yes	5.0	-5.2	No
Children's and Adult Services	2534	Safeguarding Children	Complete	Substantial Assurance	0	0	0	0	Yes	15.0	15.0	Yes
Xentrall	2535	Payroll & Absence Recording	Complete	Full Assurance	0	0	0	0	Yes	26.0	-12.3	Yes
Xentrall	2536	Environmental Controls	Complete	Full Assurance	0	0	0	0	Yes	10.0	0.9	Yes
Children's and Adult Services	2537	Troubled Families Initiative	Complete	Full Assurance	0	0	0	0	No	15.9	-8.8	Yes
Economic Growth	2538	Enforcement	Cancelled	N/A	0	0	0	0	Yes	6.9	6.9	Yes

**Internal Audit Annual Report and
Opinion Statements 2017/2018**

Neighbourhood Services & Resources	2539	Treasury Management	Complete	Full Assurance	0	0	0	0	No	10.0	-10.8	No
Children's and Adult Services	2540	Emergency Duty Team 2017/18	Complete	Substantial Assurance	0	0	0	0	Yes	3.0	-2.9	Yes
Children's and Adult Services	2541	Early Years & Complex Needs	Complete	N/A	0	0	0	0	Yes	8.0	6.2	Yes
Xentrall	2542	Debtors	Complete	Full Assurance	1	0	0	0	No	18.0	-23.0	Yes
Neighbourhood Services & Resources	2543	Data Protection	Complete	Full Assurance	0	0	0	0	Yes	10.0	-2.2	Yes
Xentrall	2544	Creditors	Complete	Full Assurance	0	0	0	0	Yes	20.0	-15.2	Yes
Xentrall	2545	Cloud Computing	Complete	Full Assurance	0	0	0	0	No	5.0	-0.3	No
Children's and Adult Services	2546	Client Financial Services	Complete	Substantial Assurance	1	2	0	0	Yes	12.0	-6.0	No
Children's and Adult Services	2547	Referral & Assessment - Childrens	Complete	Substantial Assurance	0	0	0	0	Yes	15.0	9.0	Yes
Economic Growth	2548	Building Control	Complete	Substantial Assurance	0	4	0	0	Yes	19.1	-8.3	No
Corporate	2549	Recruitment Services	Complete	Full Assurance	0	0	0	0	Yes	6.0	-6.0	Yes
Neighbourhood Services & Resources	2550	Anti-Fraud Management	Complete	N/A	0	0	0	0	Yes	35.0	24.6	Yes
Neighbourhood Services & Resources	2551	Asset Register/Asset Management	Complete	Full Assurance	0	0	0	0	Yes	7.0	7.0	Yes
Xentrall	2552	Active Directory	Complete	Full Assurance	0	0	0	0	No	6.0	0.3	Yes
Children's and Adult Services	2553	Childrens Anti Social Behaviour & Preventions	Complete	Substantial Assurance	1	3	0	0	No	8.0	-0.1	Yes
Neighbourhood Services & Resources	2554	Council Plans	Complete	Full Assurance	0	0	0	0	Yes	5.0	4.9	Yes
Children's and Adult Services	2555	Referral & Assessment - Adults	Complete	N/A	0	0	0	0	Yes	12.0	11.3	Yes
Economic Growth	2556	Business Support & Development	Cancelled	N/A	0	0	0	0	Yes	25.0	25.0	Yes
Children's and Adult Services	2557	Personal Budgets & Direct Payments	Complete	Full Assurance	0	0	0	0	Yes	11.0	-3.7	No
Neighbourhood Services & Resources	2558	Business Continuity & Disaster Recovery	Complete	Substantial Assurance	0	0	0	0	Yes	10.0	9.7	Yes
Corporate	2559	Officer Payments - Mileage	Complete	Substantial Assurance	0	2	0	0	Yes	8.0	-27.8	No
Neighbourhood Services & Resources	2560	Officer's Travel & Subsistence	Complete	Substantial Assurance	0	1	0	0	No	10.0	3.5	No
Neighbourhood Services & Resources	2561	Libraries	Complete	Substantial Assurance	3	4	0	0	Yes	25.0	-5.0	Yes
Economic Growth	2562	Private Sector Housing	Complete	Substantial Assurance	0	2	1	0	Yes	10.0	-12.5	Yes
Neighbourhood Services & Resources	2563	Cash Offices & Cash Holdings - Section 17 Payments	Cancelled	N/A	0	0	0	0	No	25.0	22.0	No

**Internal Audit Annual Report and
Opinion Statements 2017/2018**

Neighbourhood Services & Resources	2564	Freedom of Information	Complete	Substantial Assurance	0	1	0	0	Yes	15.0	-0.2	Yes
Neighbourhood Services & Resources	2565	Waste Management	Complete	Substantial Assurance	2	2	0	0	No	30.0	17.1	Yes
Neighbourhood Services & Resources	2566	Members Payments and Allowances/Travel and Subsistence	Complete	Substantial Assurance	0	0	1	0	No	20.0	9.2	Yes
Children's and Adult Services	2567	Leaving Care	Complete	N/A	0	0	0	0	Yes	7.0	6.0	Yes
Xentrall	2568	ICT Backup & Recovery / Disaster Recovery	Complete	Full Assurance	0	1	0	0	Yes	15.0	2.8	Yes
Xentrall	2569	Outlook/Email	Complete	Full Assurance	0	0	0	0	Yes	10.0	1.6	Yes
Neighbourhood Services & Resources	2570	Information Management	Complete	Substantial Assurance	0	0	0	0	Yes	10.0	10.0	Yes
Neighbourhood Services & Resources	2571	Housing Maintenance	Complete	Substantial Assurance	0	6	0	0	Yes	20.0	-3.3	Yes
Neighbourhood Services & Resources	2572	Financial Management	Complete	Full Assurance	0	0	0	0	Yes	5.0	4.3	Yes
Children's and Adult Services	2573	First Contact	Complete	N/A	0	0	0	0	Yes	3.0	1.6	Yes
Neighbourhood Services & Resources	2574	Museums, Theatres & Arts Venues	Complete	Substantial Assurance	0	3	1	0	Yes	30.0	14.4	Yes
Neighbourhood Services & Resources	2575	Land Charges	Cancelled	N/A	0	0	0	0	Yes	5.9	5.9	Yes
Children's and Adult Services	2576	Looked After Children	Complete	N/A	0	0	0	0	Yes	12.0	2.7	Yes
Chief Executive	2577	Performance Management Framework	Complete	Substantial Assurance	0	0	0	0	Yes	15.0	14.5	Yes
Xentrall	2578	Internet	Complete	Full Assurance	0	0	0	0	Yes	10.0	0.0	No
Neighbourhood Services & Resources	2579	PCI Compliance	Cancelled	N/A	0	0	0	0	Yes	10.0	10.0	Yes
Economic Growth	2580	Environmental Health	Complete	Full Assurance	0	1	0	0	Yes	6.0	-11.0	Yes
Corporate	2581	Absence Management	Complete	Full Assurance	0	1	0	0	Yes	10.0	-17.3	Yes
Neighbourhood Services & Resources	2582	Mayor's Charity Fund	Complete	N/A	0	0	0	0	Yes	2.0	0.2	Yes
Neighbourhood Services & Resources	2583	Housing Rents	Complete	Substantial Assurance	0	3	0	0	Yes	15.0	-1.8	Yes
Xentrall	2584	Bank Reconciliation	Complete	Full Assurance	0	0	0	0	No	10.0	4.2	No
Children's and Adult Services	2585	Better Care Fund	Complete	N/A	0	0	0	0	Yes	20.0	18.0	Yes
Neighbourhood Services & Resources	2586	Welfare Rights	Complete	N/A	0	0	0	0	Yes	7.0	-2.5	No

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Children's and Adult Services	2587	Planning & Partnerships Team	Complete	Substantial Assurance	1	1	0	0	Yes	15.0	-0.8	Yes
Neighbourhood Services & Resources	2588	Environmental Information Regulations (EIR)	Complete	N/A	0	0	0	0	Yes	5.0	0.1	Yes
Economic Growth	2589	Flooding Risk Management	Complete	N/A	0	0	0	0	Yes	5.0	5.0	Yes
Contingency	2590	Grant Audit Work 2017/2018	Complete	Full Assurance	0	0	0	0	Yes	25.0	-20.6	Yes
Neighbourhood Services & Resources	2591	Markets Management	Complete	N/A	0	0	0	0	Yes	0.0	0.0	Yes
Contingency	2593	Audit Liaison and Planning 2017/2018	Complete	N/A	0	0	0	0	Yes	20.0	17.5	Yes
Contingency	2594	Recommendations Follow Up 2017/2018	Complete	N/A	0	0	0	0	Yes	40.0	40.0	Yes
Contingency	2595	Continuous Monitoring Contingency	Complete	N/A	0	0	0	0	Yes	25.0	10.6	Yes
	2596	TVCA	Complete	N/A	0	0	0	0	Yes	30.0	30.0	Yes
Contingency	2597	Risk Management	Complete	N/A	0	0	0	0	Yes	35.0	23.4	Yes
Contingency	2598	ICT Individual Systems	Complete	N/A	0	0	0	0	Yes	66.0	60.5	Yes
Contingency	2599	Procurement/Contract Management	Complete	Substantial Assurance	1	3	2	0	No	62.0	23.3	Yes
Contingency	2600	Schools	Complete	N/A	0	0	0	0	Yes	15.0	15.0	Yes
Contingency	2601	Barleyfields Primary	Complete	N/A	0	0	0	0	Yes	0.0	-20.8	Yes

AUDIT COMMITTEE
26 JULY 2018

ITEM NO.

AUDIT SERVICES ANNUAL AUDIT PLAN 2018/19 – PROGRESS REPORT

SUMMARY REPORT

Purpose of the Report

1. To provide Members with a progress report against the 2018/19 Annual Audit Plan in accordance with Audit Services' role and terms of reference.

Summary

2. The report outlines progress to date on audit assignment work, consultancy/contingency activity and performance indicators.
3. The shared service was a new service beginning 1 April 2017 and brought together two teams from different organisations as well as a new approach to delivering the audit opinion.
4. In relation to Audit Services' performance a detailed report is provided with good progress to date.

Recommendation

5. It is recommended that the progress report against the 2018/19 Annual Audit Plan be noted.

Reasons

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

Andrew Barber
Audit & Risk Manager

Background Papers

- (i) Internal Audit Charter
- (ii) Audit Assignment Executive Summaries

Andrew Barber: Extension 156176

S17 Crime and Disorder	Other than any special investigation work there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Information and Analysis

7. The Annual Audit Plan for 2018/19 was approved by the Audit Committee in March 2018 and the Service was formally implemented on 1 April 2017.
8. 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.
9. Appendix 1 provides members with detailed feedback on the performance of the service and the position in relation to completion of the audit plan.
10. The audit team is now at full capacity with the vacancy filled in May 2018.
11. In line with good practice, at an appropriate time, Audit Services follow up with Managers progress on implementation of audit recommendations agreed in audit reports.

12. In addition, at the request of clients, consultancy work has been undertaken on specific projects. This time is recorded against Advice & Guidance in the attached appendix. So far to date this has been limited to day to day queries
13. The Shared Service has also responded to routine requests from Groups for advice and guidance on operational matters.

Outcome of Consultation

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

**INTERNAL AUDIT
AUDIT COMMITTEE UPDATE REPORT
2018/19**

1 AUDIT PROGRESS

- 1.1 The plan, approved on 26 March 2018, was based on an audit assessment of risk which uses a number of factors to determine the likelihood of issues occurring including an understanding of the full scope of systems in operation, major change, concerns/external interest and results of previous audit work. It then assesses the impact any issues may have on the council's strategic objectives, reputation, financial plans, assets and also the potential impact on individuals and/or the environment.

Audit Progress by Service Group

Department	Planned Audits	Cancelled Audits	Unplanned Audits	Revised Audits	Completed	In Progress	Under Review	Drafts Issued	Not Started	Ready to Start
Chief Executive	0	0	0	0	0	0	0	0	0	0
Neighbourhood Services & Resources	17	0	0	17	0	3	0	0	11	3
Economic Growth	13	0	0	13	0	3	1	0	5	4
Children's and Adult Services	17	0	0	17	1	2	0	0	9	5
Schools	1	0	0	1	0	1	0	0	0	0
Xentrall	16	0	0	16	0	5	0	0	7	4
Corporate	13	0	0	13	0	6	0	0	6	1
Contingency	6	0	0	6	0	6	0	0	0	0
SBC Only	1	0	0	1	0	0	0	0	1	0
TVCA Only	3	0	0	3	0	0	0	0	0	3
Totals	87	0	0	87	1	26	1	0	39	20

Actual Days Compared to Planned Days

- 1.2 The tables below show an alternative view of the number of planned days v actual days taken and the projected available resources to complete the plan.
- 1.3 The Audit Plan is constantly revised during the year to take account of changing requirements. Amendments to the Plan agreed on 26 March 2018 can be summarised as follows:

2018/19 Planned Audits Amalgamated/Cancelled/Deferred

None

2018/19 Unplanned Audits Added to the Plan

None

1.4 Counter Fraud

Work is continuing to complete the revisions to the Council's Anti-Fraud and corruption strategy. Revised strategy to be presented to March 2018 meeting.

2 AUDIT OUTPUT

Engagement Opinions

- 2.1** For each audit carried out Internal Audit provides an overall conclusion as to whether a sound system of internal control is being maintained. Each opinion is either “Full”, “Substantial”, “Moderate”, “Limited”, or “No” assurance depending on the conclusions reached and the evidence to support those conclusions. “Full” and “substantial” assurance normally indicates that the area under review has a reliable system of internal control.
- 2.2** These individual opinions are summarised below:-

Opinion	Definition	No.	%
Full Assurance	A sound system of internal controls is currently being applied which will ensure the system achieves its objectives. Whilst not essential there may still be scope for these controls to be enhanced in some areas.	0	0
Substantial Assurance	Overall there is a sound system of internal controls that are operating effectively. The system should achieve its objectives but there are areas where internal controls need to be improved.	1	100
Moderate Assurance	A reasonably sound system of internal controls is being applied, however, there are weaknesses which may put some of the system objectives at risk.	0	0
Limited Assurance	There is either a limited system of internal controls being applied, or there are significant weaknesses in the controls in place, which are posing a substantial risk to the achievement of system objectives.	0	0
No Assurance	The system of internal controls in place is failing and system objectives are not being met. Urgent management attention is required.	0	0
N/A	This classification covers audit work within a small part of a system. Providing an opinion on this work would misrepresent the system as a whole.	0	0
Total		1	

2.3 An analysis of the recommendations supporting these opinions by priority is shown below:-

Priority	Definition	No.	%
Critical	Actions that must be taken immediately to manage significant risks that are likely to prevent the Authority achieving one or more of its corporate objectives.	0	0
High	Actions that should be taken as a matter of priority due to the issues identified posing a substantial risk to the achievement of service/system objectives.	0	0
Medium	Required actions to reduce the risk of systems failing to achieve their objectives.	3	100
Low	Beneficial to the improvement of internal controls, which will support the achievement of objectives.	0	0
Total		3	

Details of Audits by Service Group

2018/19

Department	No. of Audits Issued	Opinions						No. of Recs Made	Previous Recommendations			
		Full	Sub	Mod	Lim	None	N/A		Tested	Passed	Failed	N/A
Chief Executive	0	0	0	0	0	0	0	0	0	0	0	0
Neighbourhood Services & Resources	0	0	0	0	0	0	0	0	0	0	0	0
Economic Growth	0	0	0	0	0	0	0	0	0	0	0	0
Children's and Adult Services	1	0	1	0	0	0	0	3	0	0	0	0
Schools	0	0	0	0	0	0	0	0	0	0	0	0
Xentrall	0	0	0	0	0	0	0	0	0	0	0	0
Corporate	0	0	0	0	0	0	0	0	0	0	0	0
Contingency	0	0	0	0	0	0	0	0	0	0	0	0
BC Only	0	0	0	0	0	0	0	0	0	0	0	0
VCA Only	0	0	0	0	0	0	0	0	0	0	0	0
Total	1	0	1	0	0	0	0	3	0	0	0	0

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2017/18

Department	No. of Audits Issued	Full	Sub	Opinions				No. of Recs Made	Previous Recommendations			
				Mod	Lim	None	N/A		Tested	Passed	Failed	N/A
Children's and Adult Services	15	2	6	0	0	0	6	9	9	3	0	2
Chief Executive	1	0	1	0	0	0	0	0	0	0	0	0
Neighbourhood Services & Resources	23	7	11	0	0	0	3	27	32	22	3	7
Xentrall	13	13	0	0	0	0	0	2	0	0	0	0
Economic Growth	9	2	4	0	0	0	3	8	12	8	2	2
Corporate	3	2	1	0	0	0	0	3	4	3	0	1
Schools	0	0	0	0	0	0	0	0	0	0	0	0
ICT Systems	0	0	0	0	0	0	0	0	0	0	0	0
Total	64	26	23	0	0	0	12	49	57	36	5	12

2.4 Shown below is a list of all the audit engagements undertaken during the year together with their assurance opinion.

2018/19 Audit Plan Current Position as at 30 June 2018

Department	Audit ID	Name	Status	Assurance	Recommendations						Final Var
					L	M	H	C	Bud	Rem	
Corporate	2602	Financial Management	Not Started						5	5.0	
Corporate	2603	Council Plans	Not Started						5	5.0	
Corporate	2604	Risk Management	In Progress						35	33.3	
TVCA Only	2605	Concessionary Travel Scheme	Ready to Start						15	15.0	
Corporate	2606	Absence Management	In Progress						10	9.3	
Xentrall	2607	Active Directory	In Progress						6	3.2	
Children's and Adult Services	2608	Adult Safeguarding	Not Started						20	19.7	
Neighbourhood Services & Resources	2609	Communications Unit	Not Started						15	15.0	
Economic Growth	2610	Building Control	Ready to Start						7	6.9	
Xentrall	2611	Cloud Computing	Not Started						5	5.0	
Neighbourhood Services & Resources	2612	Asset Register/Asset Management	Not Started						7	6.8	
Corporate	2613	Business Continuity & Emergency Planning	Not Started						10	10.0	
Economic Growth	2614	Business Support & Development	Not Started						25	25.0	
Children's and Adult Services	2615	Child Placement - Adoption	Ready to Start						7	6.5	
Children's and Adult Services	2616	Carecall	Not Started						20	19.7	
Xentrall	2617	Creditors	In Progress						20	10.7	
Neighbourhood Services & Resources	2618	Cash Offices & Cash Holdings	In Progress						25	0.0	
Children's and Adult Services	2619	Better Care Fund	Not Started						20	20.0	

Neighbourhood Services & Resources	2620	Client Financial Services	Not Started							12	12.0	
Neighbourhood Services & Resources	2621	Complaints Review	Ready to Start							9	8.4	
Children's and Adult Services	2622	Community Transport	Ready to Start							7	7.0	
Xentrall	2623	Change Control	Ready to Start							6	5.7	
Neighbourhood Services & Resources	2624	Democratic & Development Services	Not Started							10	10.0	
Economic Growth	2625	Security & Surveillance	Under Review							20	0.0	
Economic Growth	2626	Car Parking	Ready to Start							10	9.0	
Neighbourhood Services & Resources	2627	Elections	Not Started							20	20.0	
Xentrall	2628	ICT Project Management	Not Started							10	10.0	
Neighbourhood Services & Resources	2629	Members Payments and Allowances/Travel and Subsistence	Not Started							20	20.0	
Economic Growth	2630	Dolphin Leisure Centre	In Progress							15	1.0	
ABC Only	2631	Heating, Ventilation, Electrical & Building Services	Not Started							20	20.0	
Neighbourhood Services & Resources	2632	Housing Benefits	Ready to Start							18	17.6	
Xentrall	2633	Remote Access	Ready to Start							10	9.7	
Xentrall	2634	Debtors	In Progress							18	15.8	
Economic Growth	2635	Highways Maintenance Operational	Not Started							13	13.0	
Neighbourhood Services & Resources	2636	Customer Services	In Progress							25	16.4	
Corporate	2637	Information Management	Not Started							10	10.0	
Corporate	2638	Inventories	In Progress							10	3.3	
Children's and Adult Services	2639	Harewood Hill Lodge	Complete	Substantial Assurance	0	3	0	0		5		-6.1
Neighbourhood Services & Resources	2640	Housing Rents	Not Started							15	15.0	
Economic Growth	2641	Dolphin Centre Catering	In Progress							10	2.8	
	2642	Land Charges	Not Started							6	5.8	
Economic Growth	2643	Highways Maintenance Management	Not Started							10	10.0	

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**Internal Audit – Audit Committee Update
Report 2018/19**

Economic Growth	2644	Highways Inspection	Not Started						7	7.0
Xentrall	2645	Hardware Controls	Not Started						10	10.0
Children's and Adult Services	2646	Leaving Care	Ready to Start						7	6.8
Economic Growth	2647	Flooding Risk Management	Not Started						5	5.0
Children's and Adult Services	2648	First Contact	Ready to Start						3	2.9
Neighbourhood Services & Resources	2649	Sale of Council Houses	Not Started						10	10.0
Children's and Adult Services	2650	Independent Sector Assessment & Payments	Not Started						15	15.0
Corporate	2651	Anti-Fraud Management	In Progress						35	34.9
Xentrall	2652	Bank Reconciliation	Not Started						12	12.0
Corporate	2653	DBS Procedures	Ready to Start						6	6.0
Economic Growth	2654	Development Services	In Progress						8	7.3
Children's and Adult Services	2655	Referral & Assessment - Childrens	In Progress						15	14.4
Children's and Adult Services	2656	Early Years & Complex Needs	Not Started						8	8.0
Xentrall	2657	Virtualisation	In Progress						6	4.9
Children's and Adult Services	2658	Emergency Duty Team	Ready to Start						3	3.0
Children's and Adult Services	2659	Looked After Children	Not Started						12	12.0
Corporate	2660	Officer Payments - Mileage	In Progress						8.0	4.8
Xentrall	2661	Network Management	Not Started						10	10.0
Xentrall	2662	PCI Compliance	Not Started						10	9.5
Xentrall	2663	Pension Payments/Early Retirement	In Progress						10	5.0
Neighbourhood Services & Resources	2664	Treasury Management	Not Started						7	7.0
Neighbourhood Services & Resources	2665	VAT	In Progress						6.0	4.4
Neighbourhood Services & Resources	2666	Taxation	Ready to Start						12	12.0
Corporate	2667	Recruitment Services	In Progress						6	5.5
Xentrall	2668	Server Operating Systems	Not Started						5	5.0
Corporate	2669	Performance Management Framework	Not Started						15	15.0
Neighbourhood Services & Resources	2670	Personal Budgets & Direct Payments	Not Started						11	10.9

Children's and Adult Services	2671	Troubled Families Initiative	In Progress							16	11.4
Xentrall	2672	Firewalls	Ready to Start							6	5.7
Children's and Adult Services	2673	Referral & Assessment - Adults	Not Started							12	11.2
Xentrall	2674	Payroll & Absence Recording	Ready to Start							26	15.9
Corporate	2675	Workforce Development	Not Started							12	12.0
Economic Growth	2676	Environmental Health	Ready to Start							6	6.0
Economic Growth	2677	Enforcement	Ready to Start							7	5.2
Neighbourhood Services & Resources	2678	Mayor's Charity Fund	Not Started							2	2.0
Children's and Adult Services	2679	Youth Offending and Prevention	Not Started							8	8.0
Children's and Adult Services	2680	Early Years, Children's Centres & Childcare	Not Started							8	7.8
Schools	2681	Schools	In Progress							25	25.0
Contingency	2682	Grants Contingency	In Progress							25	16.1
TVCA Only	2683	Investment Plan	Ready to Start							13	13.0
TVCA Only	2684	Core Systems	Ready to Start							7	7.0
Contingency	2685	Procurement/Contract Management	Ready to Start							62	61.0
Contingency	2686	ICT Individual Systems	In Progress							66	64.8
Contingency	2687	Continuous Contingency	In Progress							65	59.2
Contingency	2688	Recommendation Follow-up Contingency	Ready to Start							50	0.0
Contingency	2689	Audit Liaison & Planning	In Progress							20	20.0

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AUDIT COMMITTEE
26 JULY 2018

ITEM NO.

Annual Review of Internal Audit Effectiveness

SUMMARY REPORT

Purpose of the Report

1. This report provides members with the results of the external assessment of the Internal Audit service.

Summary

2. An external peer review is a requirement of the Public Sector Internal Audit Standards and must be performed at least once every five years.
3. The review has taken place in accordance with the terms agreed at the March 2018 meeting. In summary it has been concluded that the service complies with the Public Sector Internal Audit Standards.

Recommendation

4. The results of the peer review are noted.

Reasons

5. To comply with the requirements of the Public Sector Internal Audit Standards.

Andrew Barber
Audit & Risk Manager

Background Papers

- (i) Internal Audit Charter
- (ii) Public Sector Internal Audit Standards

Andrew Barber: Extension 156176

S17 Crime and Disorder	Other than any special investigation work there is no crime and disorder impact.
------------------------	--

Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

Tees Valley Audit & Assurance Services

Audit and Assurance Report – Final

External Peer Review – Internal Audit Service Compliance with PSIAS

Stockton Borough Council and Darlington
Borough Council

Report issued by: Helen Fowler, Audit & Assurance Manager

Date: 10 May 2018

Distributed to:

Draft

Andrew Barber, Audit and Risk Manager

Final

As for Draft plus:
Audit Committee

Tees Valley Audit & Assurance Services
Redcar & Cleveland House
Kirkleatham Street
Redcar
Yorkshire
TS10 1RT



PSIAS – External Peer Review

Executive Summary

1. Overall Opinion

- 1.1 Overall, the external validation of the self assessment of the internal audit service for Stockton Borough Council and Darlington Borough Council confirms that the Service conforms to the requirements of the Public Sector Internal Audit Standards. There are no significant areas of concern that need to be addressed but some minor areas are outlined below for further consideration or development.
- 1.2 The Public Sector Internal Audit Standards include a specific definition of Internal Auditing; a Code of Ethics and eleven separate standards, each of which is divided into numerous attribute standards and performance standards as follows:

Attribute Standards

- Purpose, authority and responsibility
- Independence and objectivity
- Proficiency and due professional care
- Quality assurance and improvement programme

Performance Standards

- Managing the internal audit activity
- Nature of work
- Engagement planning
- Performing the engagement
- Communicating results
- Monitoring progress
- Communicating the acceptance of risks

2. Main Conclusions and Findings

- 2.1 The Public Sector Internal Audit Standards (PSIAS) were introduced in April 2013 (and revised in 2016). These standards apply to Internal Audit in all parts of the public sector in the UK and are mandatory. The PSIAS included a requirement for an external assessment of an organisation's internal audit function to be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. Heads of Audit at Hartlepool Borough Council, Stockton Borough Council and Darlington Borough Council (shared service) and Redcar and Cleveland Borough Council and Middlesbrough Council (Tees Valley Audit and Assurance Service - shared service) have established a peer-review process between the authorities' internal audit services which will meet the requirement of external assessment by self-assessment with independent external validation. This report presents the summary findings of the review carried out by TVAAS on behalf of Stockton and Darlington Borough Councils.
- 2.2 The Audit and Risk Manager (chief audit executive according to the PSIAS definition) maintains a self-assessment of the Internal Audit Service, and its compliance with the Standards. The self assessment was used as the basis for the external assessment to identify any areas of non compliance. The review involved examination of the completed self assessment for any areas marked as not complying or partially complying. The review also selected a sample of areas deemed to be compliant and confirmed this status by reference to supporting evidence. The peer review has not included an in depth review of the quality of individual audit files.

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- 2.3 This external assessment concludes that the Internal Audit Service for Stockton Borough and Darlington Borough Councils conforms to the requirements of the Public Sector Internal Audit Standards. There are some minor areas which may warrant further development or consideration but these do not have a material impact on the overall opinion. Overall, it was evident from the self assessment and the evidence and documentation reviewed that the Internal Audit Service makes a positive contribution to the provision of reliable and independent assurance on the governance, control and risk management environment for each Council.
- 2.4 The following represent areas where current practice may not strictly be in accordance with the PSIAS definitions but which are usual practice or issues in local government:
- The Standards expect feedback to be sought from the Chair of the Audit Committee and CMT member as part of the Chief Audit Executive's performance appraisal. At present, the Audit and Risk Manager's appraisal is not carried out by a member of the Corporate Management Team although it is counter signed. Similarly, although the Chair of the Audit Committee does not specifically provide feedback into the Audit and Risk Manager's appraisal, it is expected that any issues would have been highlighted by other means.
 - The Standards require that assignments for ongoing assurance engagements and other audit responsibilities are rotated periodically within the internal audit team. Whilst the Audit and Risk Manager aims to rotate assignments wherever possible, this is becoming increasingly difficult given the reduced staffing within the Team. Rotation is more problematic for audits where specialist skills are required e.g. IT technical audits. This is mitigated by the Auditors' Code of Conduct and the clear documentation of the need for objectivity, confidentiality and integrity.
 - Standard 1110 Organisational Independence expects that the Audit and Risk Manager as the chief audit executive should report to an organisational level equal or higher to the corporate management team. For line management purposes, the Audit and Risk Manager reports to the Procurement and Governance Manager rather than to the S151 Officer. Whilst this is not strictly compliant with the Standards, any impact on impartiality of the Audit and Risk Manager is safeguarded via a secondary reporting line to the S151 Officer and by direct interaction with senior management and the Audit Committee.
- 2.5 There is scope for the Service to complete its development of an assurance mapping exercise and place reliance on other assurance providers wherever appropriate and to incorporate this into the annual audit planning process.
- 2.6 The Standards (2430) expect that internal auditors state in each report that engagements are conducted in conformance with the PSIAS provided that the results of the QAIP support such a statement. At present, this statement is not included but, given that this assessment has confirmed overall compliance, then it is suggested that this should be considered as standard wording for future report templates.

3. Acknowledgements

- 3.1 The assistance given by the Audit and Risk Manager is gratefully acknowledged.

Appendices

Appendix 1 Terms of Reference

Appendix 1
Tees Valley Audit & Assurance Service

Terms of Reference

<u>Audit Title:</u>	PSIAS - SBC Peer Review
<u>Start Date:</u>	01 April 2018
<u>Audit Lead:</u>	Helen Fowler, Audit & Assurance Manager
<u>Key Contacts:</u>	Andrew Barber, Audit and Risk Manager

Background

Introduced in 2013 and most recently updated in 2016, the Public Sector Internal Audit Standards (PSIAS) promote robust governance and audit within public sector bodies and ensure that organisations and audit committees can be confident that their internal audit function is performing effectively. Heads of Internal Audit have been requested to report annually on their service's compliance with the PSIAS by completing a self assessment against the Standards. An external validation of this self assessment is required at least once every five years. The Heads of Audit for Stockton Borough Council (shared service covering Darlington Borough Council), Hartlepool Borough Council and Tees Valley Audit & Assurance Service (covering Redcar and Cleveland Borough and Middlesbrough Councils) have agreed to carry out an external validation of each other's self assessment. The Head of Audit and Governance at Hartlepool Borough Council has received confirmation that this route is acceptable to the professional bodies. As a result, the Audit & Assurance Manager of TVAAS is carrying out the external validation of the PSIAS self assessment for Stockton Borough Council's Internal Audit Service.

Audit Approach

The first stage of the work will be for the PSIAS self assessment, as updated by Stockton Borough Council's Audit and Risk Manager, to be provided to TVAAS's Audit and Assurance Manager for review. The Audit & Assurance Manager will assess the responses to the self assessment and identify any potential areas of non compliance or where further clarification is required. A sample of areas will be selected and evidence of compliance requested. The range of relevant documentation is likely to include reports to audit committee, audit charter, audit plans, strategies and policies, various minutes and performance review documents. This approach is taken in order to provide assurance that processes and procedures are fit for purpose and effectively

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communicated as well as checking the extent to which they are being complied with.

Scope & Objectives

The objective of the review is to provide an external and independent validation of Stockton Borough Council's Audit and Risk Manager's self assessment of the Service's compliance with the Public Sector Internal Auditing Standards and to highlight any significant areas of non compliance. The objective of this work is to provide assurance to the audit committees and senior management of both Stockton Borough Council and Darlington Borough Council that their internal audit service is compliant with the PSIAS thereby giving them assurance that the audit outcomes reported can be relied upon. The objective of this work is also to comply with the PSIAS requirement to complete an external validation at least once every five years.

Reporting

A draft report will be issued for review and consultation by the appropriate levels of management. A final report will then be issued, in a timely manner. It is the responsibility of management to ensure that any actions identified are implemented.

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AUDIT COMMITTEE
26 JULY 2018

ITEM NO.

ANNUAL GOVERNANCE STATEMENT

Purpose of Report

1. To approve the Council's draft Annual Governance Statement.

Information and Analysis

2. The Accounts and Audit Regulations 2015 require local authorities to prepare, approve and publish, each year, an Annual Governance Statement.
3. The Annual Governance Statement must be signed by the Leader of the Council and the Managing Director and is a key corporate document involving a variety of people charged with delivering governance such as the Assistant Director Resources i.e. the financial officer responsible for the accounting control systems and records and the preparation of the Statement of Accounts and the Assistant Director Law and Governance as Monitoring Officer in meeting his statutory responsibilities.
4. The Annual Governance Statement for 2017/18 is attached at **Appendix 1**. It outlines the Council's responsibilities, explains the purpose of the governance framework, sets out the key elements, details the review of its effectiveness, highlights any significant governance issues and includes a commitment by the Leader of the Council and the Managing Director to ensure the continuous improvement of the system in place.

Recommendation

5. It is recommended that the draft Annual Governance Statement at Appendix 1 be approved.

Reasons

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

Paul Wildsmith
Managing Director

Background Papers

- (i) CIPFA/SOLACE Publication(s) – ‘Delivering Good Governance in Local Government – Framework and Guidance Note, 2016 Editions’.
- (ii) CIPFA Statement on the Role of the Chief Financial Officer in Local Government.
- (iii) CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations.
- (iv) Audit Services’ Annual Report 2017/18 reported to Audit Committee July 2018.
- (v) Annual Audit Letter reported to Audit Committee December 2017 and Cabinet January 2018.
- (vi) Report on Annual Review of System of Internal Audit reported to Audit Committee July 2018.
- (vii) Progress reports on Xentrall Audit Plan to Audit Committee March 2017 and September 2017.
- (viii) Overview Report on Managers Assurance Statements reported to Audit Committee July 2017.
- (ix) Risk Management Reports to Audit Committee July 2017 and December 2017.
- (x) Corporate Health and Safety Report to Audit Committee September 2016.
- (xi) Darlington Borough Council ICT Strategy 2017.
- (xii) ICT Strategy Progress Reports to Audit Committee September 2017 and March 2018.
- (xiii) Information Governance Programme Progress Reports to Audit Committee September 2017 and March 2018.
- (xiv) General Data Protection Regulations (GDPR) Compliance Programme Report to Audit Committee December 2018.
- (xv) Corporate Governance Update Report to Audit Committee July 2016.
- (xvi) Anti-Fraud and Corruption Arrangements Reports to Audit Committee March 2017.
- (xvii) Audit of Accounts Report to Audit Committee July 2018.
- (xviii) Revenue Budget Monitoring Reports to Cabinet November 2017 and February 2018.

- (xix) Project Position Statement and Capital Programme Monitoring Reports to Cabinet November 2017 and February 2018.
- (xx) Performance Management Framework Reports to Scrutiny Committees.
- (xxi) Prudential Indicators and Treasury Management Reports to Audit Committee December 2017 and January 2018 and to Council January 2018.
- (xxii) Annual Review of Significant Partnerships Report to Audit Committee July 2017.
- (xxiii) Xentrall Shared Services Annual Report to Cabinet July 2017.
- (xxiv) Ethical Governance and Member Standards Report to Audit Committee September 2017 and March 2018.
- (xxv) Children's Services Update on Improvement Report to Cabinet April 2017 and to Audit Committee December 2016.
- (xxvi) Children's Services Improvement Review Letters from the Minister of State for Children and Families to the Leader of the Council dated 15 June 2016 and 30 January 2017.
- (xxvii) Ofsted Letters following monitoring visit of Darlington Borough Council's Children's Services in October 2016, February 2017 and June 2017.
- (xxviii) Senior Management Restructure Report to Council January 2018.
- (xxix) Equality Policy And Objective 2018-22 Report to Cabinet March 2018.
- (xxx) Darlington Borough Local Plan 2016-36: Housing Targets and Local Plan Timetable Reports to Cabinet and Council January 2018.
- (xxxi) Corporate Plan and Performance Framework Report to Council November 2017.
- (xxxii) Investment Opportunities - Update and Request to Increase the Fund report to Cabinet February 2018.
- (xxxiii) Better Care Fund 2017-18 and 2019-19 Report to Adults and Housing Scrutiny Committee Feb 2018
- (xxxiv) Adult Social Care Transformation Programme Report to Adults and Housing Scrutiny Committee April 2018.

S17 Crime and Disorder	There are no specific issues which relate to crime and disorder.
Health and Well Being	Apart from improvement actions in response to the Ofsted Report on Children's Services there is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	The report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	The Council's governance arrangements and achievements underpin deliver of the strategy.
Efficiency	Apart from improvement actions in response to the Ofsted Report on Children's Services there is no specific efficiency impact.

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

1. Darlington Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
3. The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government, the 2016 Edition. A copy of the Code is on our website at www.darlington.gov.uk or can be obtained from:

Democratic Services
Resources Group
Town Hall
Feethams
Darlington
DL1 5QT
Tel (01325) 405995

4. This Statement explains how the Council has complied with the Code and also meets the requirements of the Accounts and Audit Regulations 2015 in relation to the publication of an annual governance statement.

The Purpose of the Governance Framework

5. The governance framework comprises the systems and processes and culture and values, by which the Council is directed and controlled and through which it accounts to, engages with and, where appropriate leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
6. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the

likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

7. The governance framework has been in place at the Council for the year ended 31 March 2018 and up to the date of approval of the Statement of Accounts.

The Governance Framework

8. The key elements of the Council's governance framework are tabulated in Appendix A to this statement which also indicates their relevance to the following seven core principles that underpin good governance:-
 - (a) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
 - (b) Ensuring openness and comprehensive stakeholder engagement.
 - (c) Defining outcomes in terms of sustainable economic, social and environmental benefits.
 - (d) Determining the interventions necessary to optimise the achievement of the intended outcomes.
 - (e) Developing the entity's capacity, including the capability of its leadership and the individuals within it.
 - (f) Managing risks and performance through robust internal control and strong public financial management.
 - (g) Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.
9. Each key element, as detailed in the Council's Local Code, has a nominated lead officer, outlines the duty to which it relates and includes three discrete types of action:-
 - (a) Awareness - making sure that everyone who needs to know about the element does know.
 - (b) Monitoring - ensuring that the duty is carried out.
 - (c) Review - actions to ensure that the element is reviewed in the light of effectiveness and emerging good practice.
10. The governance framework continually evolves to embrace new areas of service and the associated controls, and also to encompass regulatory reviews/recommendations and the Council's financial management arrangements that conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. The governance

arrangements also conform to the requirements of the CIPFA Statement on the Role of the Head of Internal Audit in public service organisations.

Review of Effectiveness

Background

11. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by an Assurance Framework, documented in Appendix B, that includes the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Annual Internal Audit Report, and also comments made by the external auditors and other review agencies and inspectorates.
12. This Statement has been prepared by a management group that has responsibility for evaluating assurances and the supporting evidence. The group comprises the:-
 - (a) Chief Executive
 - (b) Director of Neighbourhood Services and Resources (S151 Officer)
 - (c) Assistant Director Law and Governance (Monitoring Officer)
 - (d) Assistant Director Finance and Human Resources
 - (e) Head of Strategy, Performance and Communications
13. The Audit Committee is responsible for the independent review and approval of the Annual Governance Statement following examination of the supporting evidence.
14. Assurance on adequacy and effectiveness is outlined under the following categories identified in the Council's Assurance Framework.

Senior Management Restructure

15. On 25 January 2018 Council agreed to implement a range of proposals as part of a senior management restructure signalled in earlier reports that result in a revenue saving over the Medium Term Financial Plan (MTFP).
16. It was agreed the Chief Executive will retire from the Council on the 31 May 2018 and the positions of Chief Executive and Director of Neighbourhood Services and Resources will be merged into one Managing Director role.
17. Beneath this role will be two Directors; one covering Place functions and one People. For the Director of Children and Adults Services there was minimal change. The Director of Economic Growth will assume responsibility for neighbourhood group of services along with his existing portfolio.
18. The Assistant Director for Finance, Human Resource Management and Systems would assume responsibility for Section 151 Chief Financial Officer role along with corporate strategy, performance and communication functions with the post

renamed Assistant Director Resources and there would be some minor restructuring to facilitate this.

19. The changes proposed are estimated to offer the Council, allowing for the costs of implementation, annual revenue saving of approximately £171,000 each year, with a saving of around £464,000 over the life of the MTFP.

External Regulatory Reviews

20. A routine inspection by the Office for Standards in Education, Children's Services and Skills (Ofsted) of services for children in need of help and protection, children looked after and care leavers, was performed between 23 June and 16 July 2015. The inspection report subsequently published on 1 September 2015 gave Darlington an overall judgement of inadequate.
21. Several mechanisms were put in place to drive improvements across Children's Services as required by Ofsted and the Department for Education (DfE). Since that time work has continued and improvements have been made.
22. Ofsted had undertaken five monitoring visits, in line with the framework for monitoring and re-inspecting Local Authority Children's Services judged inadequate. The final monitoring visit was in September 2017.
23. In their letters, published one month after each visit, Inspectors noted improvements made and areas for continued development.
24. Workforce stability had greatly improved with a high level of engagement by senior managers with social work teams. Children are experiencing fewer changes in social work and are better able to develop positive relationships with them. Caseloads are more manageable and have reduced on average to 18. New technology is supporting agile working. This is helping social workers to focus more on direct work with children and their families.
25. A DfE review took place on 28 June attended by the DfE Link Officer, and the Independent Chair of the Children's Services Improvement Board. During this review they met with a range of social workers and managers as well as stakeholders, to discuss their progress and work to date.
26. Feedback was positive, with the review team praising the improvement progress to date, and acknowledging the continued improving morale of the workforce. This usually results in a letter from the Minister for Children. However the Council were informed that the Minister was taking a more risk based approach and is writing to those councils giving greater concern, and that Darlington will therefore not receive a letter.
27. On the 26 February 2018 Ofsted commenced the four week re-inspection of children's services. The focus of the inspection was;
 - Children who need help and protection.
 - Children looked after and achieving permanence.

- Adoption Performance
 - Experiences and progress of care leavers
 - Leadership, management and governance.
28. Ofsted published their findings report on 21 May 2018, which cites considerable improvements since 2015. The report concluded that overall Children’s Services in Darlington have improved considerably from a position of inadequate in 2015 to now being requiring improvement to be good.
29. Within the overall judgement, Ofsted concluded the following three graded domain judgements and two sub domain judgements:
- (a) Children who need help and protection – **Requires improvement to be good** (Inadequate at 2015 inspection).
 - (b) Children looked after and achieving permanence – **Requires improvement to be good** (Requires improvement to be good at 2015 inspection).
 - (i) Adoption performance – **Good** (Good at 2015 inspection)
 - (ii) Experiences and progress of care leavers – **Good** (Good at 2015 inspection)
 - (c) Leadership, management and governance – **Requires improvement to be good** (Inadequate at 2015 inspection).

Corporate Planning and Performance Management Framework

30. The focus of the Council’s corporate planning process is on delivery of priorities within the Sustainable Community Strategy (SCS), [One Darlington Perfectly Placed](#), and the three conditions considered necessary to bring about delivery of the vision:
- (a) Strong Communities – enabling people to live fulfilling lives with less involvement from public services.
 - (b) Every Public Pound Well Spent – maximising the value from all public expenditure.
 - (c) Growing the Economy – generating income streams, employment and opportunities.
31. The foundation of the planning process is the SCS which was refreshed in 2013/14. Delivery of the SCS is via a series of underpinning Strategies, Delivery Plans and ultimately individual Performance Development Reviews. A Performance Management Framework (PMF) accompanies the planning regime and is based on a suite of performance indicators with targets and actions relevant to the locally determined outcomes described within the SCS.
32. The Corporate Plan (2017-21) was approved by Council in November 2017 and provides a clear link between the SCS and the corporate policy framework, and includes a range of measures of success that are grouped into target and tracker indicators.
33. The Councils Performance Management Framework provides for electronic calculation of performance indicators, together with the review of data entries.

Indicators are grouped into four main categories; strategic, delivery, corporate health, and change programme. Training is provided to users of the Performance Management Framework.

34. Regular monitoring takes place at monthly meetings at service level, and at quarterly Performance Clinics with the Chief Executive and senior managers. Key performance indicator performance is also monitored by Scrutiny Committee Chairs and Vice Chairs, and in 2016/17 it was agreed an additional level of performance monitoring would be implemented in 2017/18 by submission of an agreed basket of key performance indicators to the relevant scrutiny committees.
35. Following the appointment of a Performance Manager, data quality and the performance management framework (process and system) was reviewed during 2017/18.

Transformation Programme

Childrens Transformation

36. The focus of the Children's transformation programme continues to be centred on achieving savings as determined by the MTFP and improvements to service delivery. The programme has been reviewed and additional projects have commenced with the view to preventative work and reducing costs of looked after children's placements.

Adults Transformation

37. The Adults programme continues to be focused on developing a modern and sustainable operating model that is best placed to respond to the challenges and maximise the opportunities that face the sector. A central theme of the programme is the adoption of strength based approaches that prevent, reduce and delay the need for formal support. This approach promotes the independence and quality of life of adults living in our communities, while ensuring that resources are deployed in a way that supports the delivery of the MTFP.
38. The Adults programme is centred on the delivery of four strategic themes: managing demand, maximising independence, self- directed support and a cost effective and sustainable market. The programme seeks to deliver these themes by adopting and embedding 'best in class' practice models.

Education Transformation

39. A specific transformation programme for education services has recently been established. The programme seeks to develop high standard educational opportunities for all and ensure that the needs of vulnerable pupils are met. A key element of the programme will be developing a modern approach to the local authority role in education by driving change through strategic influence, highly effective partnership arrangements and collaborative networks. The focus of the programme is on SEND service improvement, including a review of high needs

provision, education for children in care and partnership arrangements with schools.

40. Delivery of all three internal programmes are monitored via a Transformation Board, with monthly meetings and monthly reporting on progress in terms of delivery and financial savings.

BCF

41. Darlington has a shared, agreed vision for a sustainable health and social care economy articulated in the Health and Wellbeing Plan, and derived from the sustainable community strategy [One Darlington: Perfectly Placed](#), which serves as Darlington's Health and Wellbeing Strategy.
42. The BCF (BCF) Plan 2017/19 builds on foundations laid in 2015/16 and 2016/17 in the areas of unplanned hospital admissions avoidance in 65+, a joint approach to discharge management, reablement and intermediate care services, improving health in care homes, and building a robust community and universal services offer in support of managing demand into the future. It is a key delivery mechanism for the "Ageing Well" objectives of the Health and Wellbeing Plan, reviewed in 2017 and adopted by the Health and Wellbeing Board in October. The BCF delivery plan also integrates with the Better Health Programme "New Models of Care".
43. The BCF is pooled under a section 75 agreement, and overseen by the Pooled Budget Partnership board, which refreshed its terms and conditions this year. Delivery is overseen by a Delivery Group comprising Darlington Clinical Commissioning Group (CCG) and the Council, and a Transfers of Care Delivery Group, which has a membership including County Durham and Darlington Foundation Trust (CDDFT), CCG and the Council. A joint Commissioning Group has also been established to explore areas for closer alignment between the Council and Darlington CCG. Key areas of work this year:
 - A primary prevention approach has been trialled (social prescribing), and will inform a care navigation service to be delivered in 2018/19. Allied to this is the development and provision of a comprehensive directory of community and universal resources for Darlington (<https://livingwell.darlington.gov.uk/>), allowing people to find their own provision, and for first points of contact, care navigators and other advocacy services to find suitable options for people below the eligibility or treatment threshold.
 - Significant work to review and improve reablement and intermediate care provision. An external review commissioned in 2016/17 paved the way for a new operating model being delivered as a key pillar of BCF 2017 – 19 and intended to address, among other objectives, the relatively poor performance of Darlington on the effectiveness of reablement.
 - The Local Authority and health partners have been working together on discharge planning and improved patient flow, while continuing to perform extremely well against the key metric of "delayed discharge of care".

Additional Improved BCF Grant

44. An additional Improved BCF Grant (iBCF) was announced in the 2017 budget, providing an additional £2,192,117 in 2017/18, with a further £1,425,577 in 2018/19 and £707,667 in 2019/20. The grant is subject to conditions which, in summary, are that the grant may only be used for the purposes of meeting adult social care needs, reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready, and ensuring that the local social care provider market is supported.
45. The new grant funding has been used to offset expenditure on current pressures and demand to ensure sustainability while the service undergoes transformation, also funded through iBCF. This will reduce the immediate ASC budget pressure and achieve a more financially stable position for ASC in the medium term when a transformed service can operate sustainably within its resources. The Council was required to submit a template plan, agreed jointly with the CCG, in respect of iBCF to Department for Communities and Local Government (DCLG) on July 21 and met this deadline.

Health and Safety Policy

46. The Health and Safety at Work Act 1974 (HASAWA) places a duty on employers to prepare a health and safety policy statement detailing the organisations health and safety arrangements and revise the policy as often as is appropriate.
47. A full review of the Corporate Health and Safety Policy has been carried out in 2017/18. The review has allowed the opportunity to reflect the priority the Council places on health and safety and the commitment of elected members and senior management.
48. The Policy has been issued to staff through the Academy 10 e-learning system, and paper copies have been given to employees without access to a work computer, along with a Toolbox Talk to ensure they understand the requirements of the Policy.
49. In addition the Council's General Statement of Intent has been revised and posters have been displayed at numerous locations throughout the organisation.

Equalities Policy

50. Following extensive consultation the updated Equalities Policy and objective (2018-22) was approved by Cabinet on 6 March 2018. The new objective is "To remind all Members and staff of their duties under the Equality Act 2010, demonstrate how the Council has done this via training and engagement with services users and support organisations, and publicise the differences that this work has made." The policy covers a four year period with a delivery plan being implemented during 2018/19.

Darlington Borough Local Plan 2016-36

51. In January 2018 Council approved a revised timetable and process for producing the new Local Plan (including the revision of the Local Development Scheme) i.e. the Local Development Scheme (2018-2021).
52. In January 2018 Council also approved a housing need of 422 dwellings per annum for the period of the plan, 2016 to 2036, equating to 8,440 dwellings in total and a planned housing target of 492 dwellings per annum or a total of 9,840 dwellings over the Plan period which will ultimately inform the housing site allocations in the new Local Plan.
53. An up-to-date Plan is essential to meeting the development needs of the Borough and ensuring the Council can shape and are in control of development. The new Local Plan will cover the period 2016 to 2036. The ambition is to prepare a Local Plan to be submitted for inspection in 2018 (with adoption likely in 2019).

Managers' Assurance Statements

54. Annual Managers' Assurance Statements (MAS) are an integral part of the framework that supports production of the Annual Governance Statement.
55. The Statements cover key aspects of the internal control environment on which assurance is required and were completed by all Assistant Directors and endorsed by the appropriate Director. The output from the exercise was reported to the Audit Committee in July 2018.
56. Generally the review of the 2017/18 MAS has identified an overall positive position. All of the identified improvement themes are to be progressed by Assistant Directors during the 2018/19 financial year.
57. Other matters raised in the 2017/18 MAS included ensuring inventories are up to date, robust information governance arrangements are in place, providing training on equalities and the Council's anti-fraud and corruption arrangements and reviewing health and safety arrangements.

Financial Management

58. The Council's MTFP now incorporates a four-year financial plan. The Council sets its annual revenue budget, capital programme and council tax and treasury management strategy within this wider planning framework. The Medium Term Plan, annual budgets and council tax are developed in consultation with partner organisations in all sectors, residents and employees and are approved by full Council.
59. The Council continues to face a significant financial challenge and since 2010 has agreed reductions in planned expenditure in real terms of over £46m. The Local Government Finance Settlement for 2018/19 has further reduced comparable government funding by £42.4m in real terms since 2010/11 and projected to rise to £51m by 2021/22.

60. The Council undertook a significant consultation exercise in 2016 following an in-depth and detailed review of all services which resulted in the agreement of a Core Offer budget by Council on 29 June 2016.
61. The Core Offer budget remains extremely challenging with additional pressures having risen and a number of savings still to be delivered over the life of the MTFP. Nevertheless, through innovative financial investments, increased income and release of redundant earmarked reserves, the Council can still deliver the agreed balanced MTFP and extend the MTFP, and have also identified £4.1m to add to the Futures Fund for investment in services across the life of the MTFP.
62. The MTFP is continually monitored and reviewed by officers and Members and is revised at least annually when an updated rolling four-year plan is produced.
63. Responsibility for controlling and managing budgets is delegated to directors and devolved to service managers. Financial management is closely integrated with service management and a quarterly update is taken to Cabinet and Efficiency and Resources Scrutiny Committee to enable them to monitor and scrutinise financial performance and service delivery.
64. The Council must comply with external financial reporting requirements, including publishing an annual Statement of Accounts ('the Accounts') and reporting to Central Government and other funding providers. The Accounts, which are prepared in accordance with relevant legislation and codes of practice, are approved by the Council's Audit Committee and are independently audited.
65. The Council's cash-flow, borrowing to finance capital expenditure and investments are managed through the Treasury Management Strategy, approved by full Council, and in accordance with legislation and codes of practice. The strategy and associated policies and procedures were reviewed in 2018. The Council manages its investments to minimise risk of losses, ensure funds are available when needed and achieve interest income.
66. Governing Bodies have formal responsibility for financial management within schools. A Schools Financial Value Standard (SFVS) has been designed by the Department for Education (DfE) to assist schools in managing their finances and to give assurance that they have secure financial management in place. The Governing Bodies of each local authority maintained school are required to undertake a self- assessment annually against the SFVS and send a copy, signed by the Chair of Governors, to the Local Authority Finance Division. All returns for 2017/18 have been received and overall they reflect a positive position. Any remedial actions considered necessary are detailed together with an appropriate implementation date. The SFVS returns are used by the Local Authority to inform their programme of financial assessment and audit.

Counter Fraud

67. The Council's Anti-Fraud and Corruption Strategy reflects a zero tolerance approach and is based on a series of comprehensive and inter-related policies

and procedures designed to deter, frustrate, or take effective action against any attempted fraudulent or corrupt acts.

68. The counter fraud arrangements are subject to annual review and the revised strategy was reported to the Audit Committee in March 2018. The review included self-assessments against the 'CIPFA Code of Practice on Managing the Risk of Fraud and Corruption' and the 'Local Government Counter Fraud and Corruption Strategy 2016-19' checklists; a summary of reported suspected frauds and whistle blowing cases; and an update on the National Fraud Initiative.
69. The review concluded that the Council's arrangements remain appropriate and fit for purpose when compared to national good practice guidance and that overall the number of reported frauds and whistle blowing cases remains low. However, the Council is not complacent and the position will be kept under review.

Risk Management

70. Risk is one of the elements of information incorporated into the Council's service planning process. Risk management is, therefore an essential element in establishing policy, developing plans and enhancing operational management.
71. The risk management process involves identifying, analysing, managing and monitoring risks. The identification of risks is derived from a 'top down' (corporate) and a 'bottom up' (group) process of risk assessment and analysis resulting in coverage of the whole Council. The process prioritises the risks resulting in a focus upon the key risks and priorities. The risks are managed through the development of appropriate action plans, allocated to responsible officers.
72. The approach to, and the outcomes from, the Council's risk management processes for 2017/18 were reported to the Audit Committee in December 2017. The report detailed generally positive progress upon delivery of action plans to mitigate key risks including those relating to the delivery of the Children's Services Improvement Plan and the information governance agenda, areas that are mentioned in more detail elsewhere in this statement.
73. The report also outlined advances in the management of operational risks. The organisation now has over 70 health and safety champions who receive appropriate training and meet regularly with senior management. The champions play a key role in raising awareness, monitoring work practices and communicating health and safety messages. In addition, the Health and Safety Team have continued to work with service managers to develop and review risk assessments and safe systems of work and there is a full programme of health and safety management training delivered internally.

ICT

74. The Council's ICT Strategy focuses on three strategic priorities, namely ICT Governance and Service Development; ICT Strategic Architecture and Council Service Development and Transformation.

75. Implementation of the Strategy is led by the Chief Officers Board, chaired by the Director of Neighbourhood Services and Resources, acting as the Systems and Information Governance Group (SIGG). SIGG is tasked to produce six-monthly reports on implementation progress to the Audit Committee.
76. The progress report to the Audit Committee in March 2018 documented positive progress on each of the three key programmes. This included reference to:
- The completion of the significant ICT elements of the refurbishment of the Hippodrome Theatre and Hullabaloo.
 - The seamless replacement of the main switches at the network core.
 - Further investigation and preparations on the future of desktop services, including piloting Microsoft Office 365 and upgrading all users to Office 2013 as a precursor to wider 365 roll-out.
 - Assisting colleagues in Xentrall Finance with a major upgrade to the Council's financial management system; Business World On (previously named Agresso).
 - Renewing the Printer/Copier maintenance contract with Canon.
 - Simplifying the Council's ICT architecture with the removal of Citrix services.
 - Improvements to the anti-virus systems.
77. As regards Council Service Development and Transformation, the Council's Systems and Information Strategy complements the ICT Strategy by ensuring that investment in service based ICT systems is correctly targeted, whilst the ICT Strategy is concerned with corporate systems and underpinning ICT architecture. Development and delivery of the Systems and Information Strategy is by SIGG who approve the work programme requested of the ICT Service, thereby ensuring that this finite resource is correctly targeted to meet the objectives of the Council as a whole.

Information Governance

78. The Council has an Information Governance Work Programme shaped by a number of external information assurance requirements that represent good practice and have common objectives, namely compliance with information related legislation, approval to use essential external party systems and services and improvement in service delivery.
79. Implementation of the Programme is led by the Systems and Information Governance Group (SIGG) which is tasked to produce six-monthly reports on implementation progress to the Audit Committee.
80. The update report to the Audit Committee in September 2017 noted the Council had recently appointed a Data Protection Officer (DPO) in line with the new General Data Protection Regulations (GDPR) and work to develop a GDPR compliance programme was on-going. It also noted the progress made in relation to service based information risk assessments and associated action plans and achieving our target for the completion of on-line mandatory information governance training courses. It made reference to the face-to-face information security and governance update sessions that had taken place with senior

management teams and sighted the continued adoption of the corporate secure information sharing and collaboration system across services.

81. In December 2017, at Audit Committee's request, a specific report providing an overview of the General Data Protection Regulations (GDPR) and the Council's progress to date in preparing for implementation was considered. In addition to considering what the Council needed to do in order to implement the Information Commissioner's Office's (ICO's) 12 steps, the report noted the DPO was assessing the Council's position as part of the GDPR compliance programme. Details of the areas of work identified and the Council's position/progress was detailed in an appendix to the report.
82. The update report to the Audit Committee in March 2018 noted the areas of highest priority in the information governance programme were the delivery of the compliance programme for GDPR and connection to the Health and Social Care Network (HSCN). The report went on to note the Council had made steady progress against the GDPR compliance programme including the DPO undertaking an extensive awareness raising campaign; issuing advice to the Head of Procurement and Principal Lawyer (Commercial) regarding the updates required to the Council's Tender Documentation and Special and Standard Contract Terms and the Contract Particulars to ensure they comply with the GDPR; embedding the requirement to seek GDPR advice into the Council's existing project management process, ICT procurement documentation and the committee report approval process and making significant progress in compiling a comprehensive record of its processing activities, following the approval of the Information Asset Register (IAR) template by the Systems and Information Governance Group (SIGG) on 16 November 2017. Full details of progress against the GDPR compliance programme were again contained in an appendix to the report. The report also detailed the fact the Council has been given approval to connect to the HSCN and it was anticipated the connection would be activated in April 2018; allowing 'seamless' sharing of information between the Council and the Health Service to improve the effectiveness and efficiency of the provision of social care services.

Capital Project Management

83. The Council has an established dedicated Capital Projects Team that operates to a consistent capital project management methodology. Any significant projects are assigned to the Capital Projects Team for delivery.
84. In addition, the Asset Management and Capital Programme Review Board (AMCPRB) perform a strategic gate-keeping role on capital projects and considers their governance arrangements. The Board is chaired by the Director of Neighbourhood Services and Resources with membership from chief officers with responsibility for capital projects, Council assets and those with specific technical, financial and legal expertise to add value to challenge and monitor the programme.
85. The Capital Projects Team has responsibility for the coordination of a Project Position Statement (PPS). The PPS provides a single source of key information

relating to the Council's commitments on capital projects and programmes monitoring projects that deviate from agreed tolerances in relation to time, cost or quality to enable proactive management. The PPS is reported to the AMCPRB at every meeting and quarterly to Cabinet.

86. Further enhancement to the project management systems are underway and a proprietary system is being considered within Xentrall's ICT Work Programme. Procurement is expected in 2018/19 and once installed and tested a roll-out will be scheduled with a refresh of the methodology and training on use of the electronic system.

Internal Audit

87. The Council's Internal Audit Division operates to the UK Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note.
88. The Annual Internal Audit Plan is risk-based and sets the foundation for an objective review of key controls and procedures operating within the Council. The Audit Committee approves the Annual Internal Audit Plan and receives progress reports against the Plan during the year, including any significant matters arising or other issues of concern, and Internal Audit's Annual Report.
89. Internal Audit concluded in their Annual Report for 2017/18, reported to the July 2018 Audit Committee, that overall the Council continues to operate within a control environment that is generally sound.
90. A Shared Internal Audit Service with Stockton Borough Council commenced on 1 April 2017, following the agreement of both Councils. The intention was to future proof the important functions that the service provides while enabling a saving to be achieved, not least in management costs. In particular, the arrangement will enhance the resilience of the service.
91. The Audit Charter and Audit Plan 2018/19 for the Internal Audit Shared Service were approved at the March 2018 Audit Committee and its Quality Assurance and Improvement Process was noted.

Annual Review of the Effectiveness of the System of Internal Audit

92. An annual review of the effectiveness of the Council's system of internal audit was carried out by Middlesbrough Council Internal Audit Service as agreed by Audit Committee in March 2018. The findings of the review were considered by the Audit Committee in July 2018.
93. The review team concluded that the Council has an effective system of internal audit.

Xentrall-Shared Service Partnership

94. A shared service partnership was established in May 2008 with Stockton Borough Council for the provision of ICT, Transactional Finance and HR and Print and Design. Stockton Borough Council is the host authority.
95. The partnership is now in its tenth year of the original ten year agreement. The original business case identified a number of efficiencies and developments to be delivered and initial savings of £7.4m over the original ten year period. Xentrall has delivered all of these plus additional efficiencies and benefits and is now on target to deliver £13.6m savings over the same time period. At the same time the quality and performance of services have improved, with both customer and staff satisfaction increasing.
96. As a result of the ongoing success of the partnership in achieving savings and sustaining service performance, Cabinet, in April 2015, approved a variation to the original ten year agreement making it a continuing agreement with no defined end date but retaining the 12 month notice termination clause.
97. The internal audit of the partnership is undertaken by Stockton Borough Council and the outcome from the audit work carried out is reported quarterly to the Darlington Audit Committee. The overall position on audit assurance opinions for 2016/17 was positive.

Partnership Working

98. In March 2007, Cabinet adopted a partnership working toolkit to provide a means to ensure that the Council's resources were effectively employed, the performance of each partnership was monitored and adequate governance arrangements were in place. As part of the toolkit, a clear definition of a partnership and those classed as significant was documented and this included whether the arrangement was a major contributor towards achieving the Community Strategy objectives. The toolkit that comprises a questionnaire is completed by the Council Lead Officer for each partnership.
99. There are annual reviews of significant partnerships led by the Darlington Partnership Director based upon completed questionnaires. The outcomes from the latest review were reported to the Audit Committee in July 2018.
100. The report summarised the range of partnership working undertaken by the Council and generally, an overall positive position on outcomes and governance arrangements was depicted.
101. Partnership Lead Officers recognise and accept that ensuring governance arrangements remain relevant is an ongoing process. For example, Terms of Reference are reviewed periodically to ensure that they remain fit for purpose and risk registers are regularly updated to reflect emerging risks and changes in circumstances.
102. The toolkit has been effective in identifying high level concerns of the significant partnerships. Reduction in funding and the consequent effect on capacity are the predominant issues raised by Lead Officers that have potential implications for the

effective operation of the partnerships. Each partnership is monitoring this issue closely.

Joint Ventures

103. The Council is investor and shareholder of a joint venture company delivering a small housing development following approval by Cabinet on 8 November 2016. Cabinet approved extending the scope of its joint venture working with a further development at Stag House Farm to be delivered on a joint venture basis with a private housing developer.
104. The risks and governance safeguards in place with respect to joint venture working include internal and company audits, restriction on banking facilities, monthly progress reports and quarterly board meetings. Further details are contained in the Assurance Framework at **Appendix B** of this report.

Member Standards

105. In 2017/18 there were four complaints received against Members.
106. The 2017/18 figure includes complaints concerning both Borough Council and Parish Council Members. There were two complaints about the conduct of Borough Council Members and two complaints concerning Parish Council Members.
107. This is considered a relatively low number given the number of Members we have, and the range and volume of matters that Members are involved with.
108. The Independent Person continues to be involved at the assessment stage of complaints handling and the process of liaison between her and the Monitoring Officer in considering the initial assessment of complaints is working well. In terms of complaints handling, seven of the complaints were dealt with by other action and one by investigation.
109. The Audit Committee has responsibility for ethical values as part of its remit. This includes reviewing Ethical Health Indicators across a range of activities in order to identify any peaks in activity that could indicate areas of possible concern. Update reports about member standards issues and also ethical indicators were presented to the Audit Committee in September 2017 and March 2018. No particular issues of concern arose from variations in the indicators.
110. Refresher Training sessions on the Code of Conduct were delivered for Members (two sessions were held in July 2017 and further sessions in November and December 2017) in accordance with Mandatory training requirements for Members (training required on the Code of Conduct every two years).
111. Members are reminded to update their register of interests forms on an annual basis. This was referenced at the Code of Conduct training sessions held in 2017. Copies of the current Members Interests were circulated with a Guidance Note to

assist Members to review and update. The updated forms have been published on Council's website.

112. Parish Councils, Members Interests Forms are also published on the Borough Council's website and are updated following co-option of Parish Members.
113. The Monitoring Officer continues to provide advice to Members on interests on an ongoing basis and Members do self-identify their concerns. The Monitoring Officer also raises issues with individual Members ahead of meetings as required. Compliance with the advice given by the Monitoring Officer is good.

Efficiency and Resources Scrutiny Committee

114. Scrutiny forms an important part of the Council's governance arrangements by providing independent examination of executive roles. The Efficiency and Resources Scrutiny Committee has responsibilities for examining the Council's arrangements for financial planning, performance and service delivery, project and asset management and procurement and contracts. The Committee develops and implements an annual work programme to manage its continuing oversight role and undertake specific pieces of work.
115. During 2017/18 the Committee was involved in scrutinising the annual review of the MTFP and held a number of special meetings to consider the proposals made, both for its own areas of responsibility and also responses and detailed work from all other scrutiny committees, from which it made recommendations to Cabinet in February 2018 to inform their deliberations. Efficiency and Resources Scrutiny will continue to lead on scrutinising the budget and MTFP and assist with the implementation and development of the required savings.

External Audit

116. The Council's external auditors Ernst and Young LLP (EY) are expected to give an unqualified opinion on the Council's 2017/18 accounts by the target date of 31 July 2018.
117. The external auditors are expected to issue an unqualified value for money conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.
118. EY review the Annual Governance Statement to consider whether it complies with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to them. They are expected to confirm that they found no areas of concern in this context.
119. The auditors are also required to report to management and the Audit Committee any significant deficiencies in internal control identified during their audit. EY have not raised any significant matters in this regard.

Conclusion

120. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. In conclusion, we are satisfied the Council has robust governance arrangements in place and while there are currently no governance issues we are committed to the continuous improvement of the system.

Signed _____
Leader of the Council

Dated _____

Signed _____
Managing Director

Dated _____

APPENDIX A

Document/Function	Core Principles of Corporate Governance						
	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Ensuring openness and comprehensive stakeholder engagement	Defining outcomes in terms of sustainable economic, social and environmental benefits	Determining the interventions necessary to optimise the achievement of the intended outcomes	Developing the entity's capacity, including the capability of its leadership and the individuals within it	Managing risks and performance through robust internal control and strong public financial management	Implementing good practices in transparency, reporting, and audit, to deliver effective accountability
Sustainable Community Strategy		✓	✓	✓			✓
Constitution	✓	✓					✓
Corporate/Service Planning and Performance Management Framework		✓	✓	✓	✓	✓	✓
Communications and Engagement Strategy	✓	✓	✓	✓			✓
ICT Strategy			✓		✓		
Workforce Strategy	✓				✓		
Schedule of Council Meetings		✓					✓
Council Procedure Rules	✓	✓					✓
Record of Decisions		✓	✓	✓			
Partnership Working	✓	✓	✓	✓	✓	✓	✓

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Document/Function	Core Principles of Corporate Governance						
	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Ensuring openness and comprehensive stakeholder engagement	Defining outcomes in terms of sustainable economic, social and environmental benefits	Determining the interventions necessary to optimise the achievement of the intended outcomes	Developing the entity's capacity, including the capability of its leadership and the individuals within it	Managing risks and performance through robust internal control and strong public financial management	Implementing good practices in transparency, reporting, and audit, to deliver effective accountability
Toolkit							
Code of Conduct for Members	✓	✓					✓
Members Induction and Training Programme	✓	✓			✓	✓	✓
Code of Conduct for Employees	✓	✓					
Officer and Member Protocols	✓				✓		
Confidential Reporting Policy	✓					✓	✓
Code of Corporate Governance	✓	✓	✓	✓	✓	✓	✓
Risk Management Approach				✓		✓	✓
Anti-fraud and Corruption Policies	✓					✓	✓
Capital Projects		✓	✓			✓	

Document/Function	Core Principles of Corporate Governance						
	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Ensuring openness and comprehensive stakeholder engagement	Defining outcomes in terms of sustainable economic, social and environmental benefits	Determining the interventions necessary to optimise the achievement of the intended outcomes	Developing the entity's capacity, including the capability of its leadership and the individuals within it	Managing risks and performance through robust internal control and strong public financial management	Implementing good practices in transparency, reporting, and audit, to deliver effective accountability
Methodology							
Information Governance Policies	✓	✓				✓	✓
Procurement Strategy	✓	✓	✓			✓	
Contract and Property Procedure Rules	✓	✓	✓			✓	
Medium Term Financial Plan/Budgets		✓	✓	✓		✓	✓
Treasury Management Framework						✓	
Annual Statement of Accounts		✓				✓	✓
Financial Procedure Rules	✓	✓				✓	✓
Scheme of Delegation		✓			✓		✓
Complaints Process	✓	✓					✓
Equalities Plan		✓	✓	✓			

Document/Function	Core Principles of Corporate Governance						
	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Ensuring openness and comprehensive stakeholder engagement	Defining outcomes in terms of sustainable economic, social and environmental benefits	Determining the interventions necessary to optimise the achievement of the intended outcomes	Developing the entity's capacity, including the capability of its leadership and the individuals within it	Managing risks and performance through robust internal control and strong public financial management	Implementing good practices in transparency, reporting, and audit, to deliver effective accountability
Business Continuity Plans		✓				✓	
Health and Safety Policy		✓				✓	✓

Assurance Framework

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
Corporate Planning and Performance Management Framework inadequate/ineffective	Chief Officers Executive	<p>Quarterly performance clinics held between the Chief Executive / Managing Director and Assistant Directors.</p> <p>Performance data is gathered from various sources and reviewed by the Assistant Director and relevant Director in advance of the clinics.</p> <p>Clear definitions for indicators are in the process of being established.</p>	Performance indicators are reviewed by Internal Audit when individual service areas are audited.	<p>Quarterly report to Cabinet showing performance indicators (targets and trackers) along with more detailed analysis of two of the eight outcomes associated with the Corporate Plan.</p> <p>Baskets of performance indicators reported to scrutiny groups on a quarterly basis.</p>
Equalities Policy inadequate/ineffective	Chief Officers Board	<p>Indicators relating to equalities to be included in Performance Clinics with Chief Executive / Managing Director.</p> <p>Corporate Equalities Group consisting of equalities advisors (appointed by Assistant Directors) and chaired by Head of Strategy, Performance and Communications will meet quarterly to monitor and</p>	Where appropriate, equalities related performance indicators are reviewed by Internal Audit when individual service areas are audited.	<p>Equalities report to be produced annually by the Corporate Equalities Group.</p> <p>Report to be presented to the Chief Officers Executive and the portfolio holder for Housing, Health and Partnerships.</p>

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
		report on equalities related performance indicators.		
Darlington Borough Local Plan 2016-36 not adopted	External examination by the Planning Inspectorate	Planning Advisory Service Peer review through duty to cooperate PINS advisory service	Local Plan is not currently linked to Internal Audit Plan due to examination processes.	Local Plan development is considered through Member advisory Panel and Place Scrutiny Committee. Submission document and adoption of the plan will need to be considered by Cabinet and Full Council.
Internal Control environment inadequate/ineffective.	Internal Audit	Internal Audit Strategy. Internal Audit's Role and Terms of Reference. Risk based Annual Internal Audit Plan. Internal Audit Reports/opinions and outcomes from consultancy work undertaken.	Internal Audit Strategy. Internal Audit's Role and Terms of Reference. Risk based Annual Internal Audit Plan. Internal Audit reports/opinions and outcomes from consultancy work undertaken.	Internal Audit's Strategy, Role and Terms of reference and Annual Audit Plan approved by the Audit Committee. Quarterly/Annual Reports to the Audit Committee on progress/outcomes against the Annual Audit Plan. Annual Report includes an overall opinion on the Council's control environment.
The financial position of the Council not presented fairly in the Financial Statements; the Annual Governance	External Audit	Risk based External Audit Plan. External Audit Reports/opinions.	Internal Audit's Annual Audit Plan discussed with External Audit to facilitate External audit planning and minimise the duplication of audit effort wherever possible.	External Audit Plan and External Audit Reports, including the Annual Audit Letter, considered by the Audit Committee. Annual Audit Letter

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
Statement not presented in accordance with relevant requirements; and proper arrangements are not in place to secure economy, efficiency and effectiveness in the use of resources.				considered by Cabinet.
Inadequate provision of services to the people of Darlington.	External Inspection Agencies	External Inspection Agencies' reports.	External Inspection reports reflected upon in the Internal Audit planning process.	External Inspection reports and progress on improvement action plans considered by relevant Scrutiny Committee/Audit Committee/Cabinet/Council.
Business risk processes inadequate/ineffective	Corporate Assurance	Risk Management Approach Corporate/Group Risk Registers.	Annual Audit Plan developed with reference to Corporate/Group Risk Registers. Risk Management function subject to periodic Internal Audit review as part of the cyclical audit process.	Risk Management Approach endorsed by the Audit Committee and approved by Cabinet. Six-monthly/Annual Reports to the Audit Committee on the outcomes from the Council's risk management processes.
Fraud and corruption arrangements inadequate/ineffective.	Internal Audit and Housing Benefits.	Anti-Fraud and Corruption Strategy, Policy, Fraud Response Plan, Anti-Money Laundering Policy and Anti-Bribery Policy and Procedures.	Anti-Fraud and Corruption arrangements, including National Fraud Initiative exercises, administered by Internal Audit.	Fraud related Policies and Strategies approved by the Audit Committee/Council Confidential Reporting Policy approved by Council.

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
		<p>Housing Benefit/Council Tax Anti-Fraud Strategy, Policy and Sanctions Policy. Confidential Reporting Policy. Internal Audit reviews of arrangements. Outcomes from bi-annual National Fraud Initiative exercises. Internal Audit/Housing Benefits case files.</p>	<p>The potential for a service to be susceptible to fraud reflected within Internal Audit's risk assessment model that underpins the annual audit planning process. Internal Audit review of Housing Benefits conducted on an annual basis.</p>	<p>Annual Reports to the Audit Committee on the outcomes from the Council's anti-fraud and corruption arrangements.</p>
<p>Information governance arrangements inadequate/ineffective.</p>	<p>Information Security Section within Xentrall, Complaints and Information Governance Team and External Audit.</p>	<p>Corporate Policy Statement on Information Governance. Employees/Members Guide to Information Security. Information Risk Management process that informs the information governance work programme. COB Agendas/Minutes. Officer/Member Training. Data Quality reflected upon by External Audit in their VFM assessment.</p>	<p>Information Governance/Sensitivity of data is reflected within Internal Audit's risk assessment that underpins the annual audit planning process. Information Governance subject to periodic Internal Audit review as part of the cyclical audit process.</p>	<p>Corporate Policy Statement on Information Governance approved by Cabinet. Six-monthly reports to the Audit Committee on progress with implementation of the information governance work programme. External Audit VFM assessment considered by the Audit Committee and Cabinet.</p>
<p>Internal control environment of relevant areas of Xentrall inadequate/ineffective.</p>	<p>Stockton BC Internal Audit</p>	<p>Risk based Annual Internal Audit Plan. Internal Audit reports/opinions and outcomes from consultancy work undertaken.</p>	<p>Joint working protocol agreed between the Internal Audit Services of Stockton and Darlington to cover Xentrall audits. Copies of all relevant Stockton BC Internal Audit Reports on Xentrall forwarded to</p>	<p>Stockton BC's Annual Audit Plan related to Xentrall considered by the Audit Committee. Quarterly Reports to the Audit Committee on progress/outcomes against the Annual Audit Plan.</p>

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
			Darlington Internal Audit for information.	
Local Code of Corporate Governance not implemented.	Corporate Group with responsibility for overseeing the drafting of the Annual Governance Statement.	Local Code of Corporate Governance Local Code individual key documents/functions matrices completed by relevant Lead Officers, covering awareness, monitoring and review actions.	Internal Audit direct effort annually to validate a sample of evidence to support delivery of awareness, monitoring and review actions detailed on the Local Code individual key documents/functions matrices.	Local Code endorsed by the Audit Committee and approved by Council. Annual Governance Statement considered by the Audit Committee prior to approval.
Grant processes inadequate.	External Audit Internal Audit	External Audit Report on audited Grant Claims. Internal Audit sign-off of relevant Grant Claims.	Grant process arrangements subject to annual review by Internal audit.	External Audit Report on Grant Claims considered by the Audit Committee. Internal Audit Grant Claims work referenced in Quarterly Reports to the Audit Committee on progress/outcomes against the Annual Audit Plan.
Health and Safety practices and processes inadequate/ineffective	Health and Safety Unit	Corporate Health and Safety Policy. Heads of Service Health and Safety Management self assessments and action plans. Risk Assessments Reportable Accident Statistics Outcomes from audits undertaken by the Health and Safety Unit.	Health and Safety function subject to periodic Internal Audit review as part of the cyclical audit process.	Corporate Health and Safety Policy approved by Cabinet. Council's performance on health and safety reported annually to the Audit Committee.

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
		Officer/Member Training.		
Property management arrangements inadequate	Corporate Landlord Function	Corporate Premises Database System and supporting documentation.	Corporate Landlord Function subject to periodic Internal audit review as part of the cyclical audit process.	Property management arrangements included in Council Risk Registers and, as such, included within member reporting arrangements for business risk processes.
Management control in respect of operational aspects of the business inadequate.	Chief Officers Board	Annual signed Assurance Statements from Assistant Directors.	Arrangements administered and outputs scrutinised by Internal Audit.	Annual report to the Audit Committee on the outcomes from the Assurance Statement process.
Capital Project management arrangements inadequate/ineffective.	Asset Management and Capital Programme Review Board	Asset Management and Capital Programme Review Board Agendas/Minutes and supporting documentation.	Project Office function subject to periodic Internal Audit review as part of the cyclical audit process.	Project Position Statement reported regularly to Cabinet.
Partnership governance arrangements inadequate.	Partnership Lead Officers	Annual Partnership Toolkit Questionnaires completed by relevant Council Partnership Lead Officers and supporting documentation.	Partnership Governance Arrangements subject to periodic Internal Audit review as part of the cyclical audit process.	Partnership Toolkit approved by Cabinet. Annual report to the Audit Committee on the operations of significant partnerships.
Joint Venture Housing Investment	Internal Audit DBC Directors Legal Services advice as required	Copies of Company Audit reports Access to Banking facilities Restriction on Banking Facilities without approval of 2 Directors Weekly Sales Report Monthly Progress Report Quarterly Board meeting attended	Joint Venture Arrangements subject to periodic internal audit review and reviewed as part of cyclical audit process	Joint Venture Arrangements included in the Council's risk register and as such included within member reporting arrangements for business risk processes.

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
		by DBC Directors with Legal, Finance and Housing expertise. Shareholders Reserved Matters		
Treasury management arrangements inadequate.	Financial Services	Treasury Management Policy Statement, Strategy, Prudential Indicators and Procedures.	Treasury Management function subject to periodic Internal Audit review as part of the cyclical audit process.	Treasury Management Policy Statement, Strategy and Prudential Indicators considered by the Audit Committee and approved by Council. Treasury Management Procedures approved by the Audit Committee. Regular/Annual Reports to the Audit Committee and Cabinet on the performance of the Treasury Management function.
Financial management arrangements inadequate/ineffective.	Financial Services	Medium Term Financial Plan. Corporate Budget Setting/Monitoring processes and supporting documentation. Officer/Member Training.	Financial management arrangements subject to periodic Internal Audit review as part of the cyclical audit process.	Medium Term Financial Plan approved by Council. Quarterly Reports to Cabinet on Financial Performance.
Financial management arrangements in local authority maintained schools inadequate/ineffective.	School Governing Bodies	Schools annual self assessment returns against the Schools Financial Value Standard (SFVS).	Financial arrangements in schools subject to periodic Internal Audit review as part of the cyclic audit process.	School balances reported to Cabinet quarterly.
Ineffective	Chief Officers	Chief Officer Executive	Internal Audit	Reports to Cabinet and

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
management of the transformation agenda.	Executive	Agendas/Minutes and supporting documentation.	support/contribute to delivery of the Transformation Programme as relevant.	Scrutiny as appropriate.
Ineffective challenge to the procurement process.	Procurement Board	Procurement Board Agendas/Minutes and supporting documentation.	Procurement process subject to periodic Internal Audit review as part of the cyclical audit process.	Annual Procurement Plan approved by Cabinet.
Ethical health arrangements inadequate.	Legal Services	Member Code of Conduct. Officer Code of Conduct. Member/Officer Training.	Audit Committee reports on ethical indicators reflected upon in the audit planning process.	Members and Officers Codes of Conduct approved by Council. Audit Committee receives reports on ethical indicators.
Lessons not learned from complaints received.	Complaints and Information Governance Team	Corporate, Adult Social Care, Children's Social Care, Housing and Public Health Complaints, Compliments and Comments Procedures. Complaints Records. Ombudsman complaints and outcomes.	Complaints and Ombudsman reports reflected upon in the audit planning process.	Complaints Procedures approved by Cabinet. Annual report to Cabinet on complaints received and the resultant organisational learning. Regular reports to Cabinet on Ombudsman complaints and outcomes.
Inadequate arrangements for the delivery of the Public Health function and responsibilities.	Director of Public Health	Public Health Work Plan. Health and Wellbeing Strategy. Director of Public Health's Annual Report.	Public Health function subject to periodic Internal Audit review as part of the cyclical audit process.	Regular reports to Health and Wellbeing Board and Health and Partnerships Scrutiny Committee.
Ineffective system of internal audit	Senior Group of Officers	Annual Review of the system of internal audit and supporting documentation.	Internal Audit direct effort annually to support the review process.	Annual Review of the system of internal audit considered by the Audit Committee.

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