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Audit Committee Agenda

DARLINGTON
BOROUGH COUNCIL

9.30 am Wednesday, 29 January 2020
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 20 November 2019 (Pages 1 - 4)

4. Mid Year Risk Management Update Report 2019/20 –
Report of the Managing Director
(Pages 5 - 22)

5. Prudential Indicators and Treasury Management Strategy Report 2020/21 –
Report of the Managing Director
(Pages 23 - 60)

6. Accounting Policies to be applied to the 2019/20 Financial Statements –
Report of the Managing Director
(Pages 61 - 82)

7. Final Accounts timetable for the year ended 31 March 2020 –
Report of the Managing Director
(Pages 83 - 86)

8. Audit Services Annual Audit Plan 2019/20 - Progress Report –
Report of the Audit and Risk Manager
(Pages 87 - 100)

9. SUPPLEMENTARY ITEM(S) (if any) which in the opinion of the Chair of this Committee are of an urgent nature and can be discussed at this meeting

10. Questions

Luke Swinhoe
Assistant Director Law and Governance

Tuesday, 21 January 2020

Town Hall
Darlington.

Membership
Councillors Durham, Baldwin, Crudass, Howell, McEwan and Paley

If you need this information in a different language or format or you have any other queries on this agenda please contact Allison Hill, Democratic Officer, 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 : Allison.hill@darlington.gov.uk or telephone 01325 405997

AUDIT COMMITTEE
Wednesday, 20 November 2019

PRESENT – Councillors Durham (Chair), McEwan and Paley

APOLOGIES – Councillors Baldwin, Crudass and Howell

ALSO IN ATTENDANCE – Nicola Wright

OFFICERS IN ATTENDANCE – Peter Carrick (Finance Manager Central/Treasury Management), Luke Swinhoe (Assistant Director Law and Governance), Lee Downey (Complaints and Information Governance Manager), Andrew Barber (Audit and Risk Manager, Stockton Borough Council), Ian Miles (Assistant Director Xentrall Shared Services) and Allison Hill (Democratic Officer)

A25 DECLARATIONS OF INTEREST

There were no declarations of interest reported at the meeting.

A26 MINUTES

Submitted – The Minutes of the meeting of this Audit Committee held on 31 July 2019.

RESOLVED – That the Minutes of the meeting of the Audit Committee held on 31 July 2019 be approved as a correct record.

A27 ANNUAL AUDIT LETTER 2018/19

The Managing Director submitted a report (previously circulated) together with a copy of the Annual Audit Letter for 2018/19.

It was reported that the Letter provided a high level summary of the results from the 2018/19 audit work undertaken by Ernst and Young LLP (EY), the Council's external auditors, for the benefit of Members and other interested parties and confirmed that the Council's accounts gave a true and fair view of the year ending 31 March, 2019 and that the Council had put in place proper arrangements to secure value for money in its use of resources.

RESOLVED – That the Annual Audit Letter 2018/19 be noted.

A28 MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2019/20

The Managing Director submitted a report (previously circulated) to seek Members approval of the revised Treasury Management Strategy, Prudential Indicators and provide Members with a half-yearly review of the Council's borrowing and investment activities.

It was reported that the mandatory Prudential Code, which governs Council's borrowing, required Council approval of controls, called Prudential Indicators, which related to capital spending and borrowing. The indicators were set out in three statutory annual reports and the key objectives of those reports were set out in the submitted report, together with the key proposed revisions to the indicators which related to a reduction in the Operational Boundary and the Authorised Limit to allow for any additional cashflow requirement.

Reference was also made to the Treasury management budget which was forecast to overspend by £0.033m in 2019/20 due to a combination of less than expected returns on Commercial Ventures and investments and reduced interest/principal repayments which have been reflected in the current Medium Term Financial Plan projections.

Members examined the Prudential Indicators and the Treasury Management half-yearly review and were satisfied with the Council's borrowing and investment activities and the reported prudential indicators.

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

A29 ETHICAL GOVERNANCE AND MEMBER STANDARDS - UPDATE REPORT

The Managing Director submitted a report (previously circulated) updating Members on 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 Council and it was reported that, by reviewing and monitoring the indicators, it was hoped to be able to identify any unusual or significant changes in the volume of data recorded for the relevant period that might provide an alert to any deterioration in the ethical health of the authority.

Members viewed a short video 'the Principles of Public Life: 25 years' to outline the important role of the Committee on Standards in Public Life, which is an advisory non-departmental public body sponsored by the Cabinet Office and advised the Prime Minister, national and local government about ethical standards in public life in England.

It was reported that there were no particular areas of concern that had been identified from reviewing the data, however Members agreed that it would be useful to obtain some benchmarking data in relation to ethical health from other Tees Valley authorities of a similar size

RESOLVED – That the report and statistical information contained therein be noted.

A30 INFORMATION GOVERNANCE PROGRAMME PROGRESS REPORT

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

It was reported that information governance is no longer an 'above the line' risk on the Corporate Risk Register and that delivery of the programme has provided the assurance required to reduce the information risks to an acceptable level.

The submitted report outlined the ongoing work, together with those areas of highest priority within the programme, with particular reference being made to the transfer of data between the Council and its data processors in the event of a no deal Brexit.

Members considered Appendix 2 which showed the position at the end of October with regard to the completion of the mandatory on-line information governance courses and noted that completion rates of over 95 per cent represented an acceptable level of take up, however a number of services completion rates were below the target. It was agreed that the Complaints and Information Governance Manager raise the Audit Committee Members concerns with the relevant Directors.

RESOLVED – That the progress on the Information Governance Programme be noted.

A31 ICT STRATEGY - IMPLEMENTATION PROGRESS REPORT

The Assistant Director, Xentrall Shared Services submitted a report (previously circulated) to provide a six monthly progress update in relation to the implementation of the ICT Strategy.

The ICT Strategy focussed on three strategic priorities of ICT Governance and Service Development, ICT Strategic Architecture and Council Service Development and Transformation; and summarised progress on the main activities within each of these priorities.

The submitted report highlighted a number of architecture projects during the last six months including the detailed design of a new wide-area and data network; a successful migration of the Council's external telephony from traditional copper circuits to a more resilient flexible and cost effective fibre-based internet system; an upgrade to the wireless network core that runs services across Council buildings; procurement of both a telephony core management system upgrade and an upgraded video conferencing service; continuing developments surrounding the migration and deployment of the Microsoft Office 35 suite of systems; and commencement of a replacement programme for ageing Windows 7 Desktops.

The submitted report also outlined a further ten services specific projects that had been completed since the last progress report to this Committee.

Members questioned future use of telephone conferencing facilities and also requested a fuller explanation of the Microsoft Office 365 roll-out and the features this brings and, in particular how important information was being safeguarded against incorrect deletion and the record management practices in place.

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

A32 AUDIT SERVICES ANNUAL AUDIT PLAN 2019/20 - PROGRESS REPORT

The Audit and Risk Manager submitted a report (previously circulated) outlining the progress against the 2019/20 Annual Audit Plan.

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

RESOLVED – That the progress report against the 2019/20 Annual Audit Plan be noted.

AUDIT COMMITTEE
29 JANUARY 2020

ITEM NO.

MID YEAR RISK MANAGEMENT UPDATE REPORT 2019/20

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 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) Annual Risk Management Report to Audit Committee 31 July 2019

Lee Downey 5451

S17 Crime and Disorder	This report has no implications for crime and disorder
Health and Well Being	There is no specific health and well-being impact
Carbon Impact	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 1 June 2018, are attached at Appendices A-D and show the current Council Corporate and Departmental risks.

7. All risks are continually managed during the year by Corporate and Departmental 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 departmental staff, details progress made on improvement actions for those risks identified as above the risk appetite line.

(a) **Corporate Risks (Appendix A)** – no risks have been identified as above the appetite line.

(b) **Children and Adults (now includes the Commissioning Group and Public Health) (Appendix B)** – three risks have been identified as above the appetite line.

(C & A1) Inability to contain placement costs for children looked after

(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 needs of the looked after children. This includes in-house foster care, residential care 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 & A8b) Risk Reworded - Increased demand for Children's services impacts negatively on budget

(ii) Work is ongoing within the Transformation Programme to safely reduce the level of risk in children's services. This work will be enhanced with colleagues from Leeds City Council under the DfE sponsored Strengthening Families Programme.

(C & A 14b) Failure to respond appropriately to safeguard vulnerable children, in line with national legislation and safeguarding children, thresholds and procedures

(iii) Services are in place to screen contacts and referrals, and to respond should concerns be identified. Thresholds for intervention are multi-agency, and the Council ensure that its own staff understand and apply them robustly.

(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. A violence working group has been established following an increase in the number of reported violent incidents. The remit of the working group is to review the Corporate Arrangement for Violence at Work, share best practice across the Council and apply a consistent approach to the measures taken to reduce risks. The group will also focus on ways to improve communication of arrangements and how to increase the reporting of incidents across all service areas.

11. Reliance Protect devices have been issued to staff where needed, as part of a safe system to work to reduce the risks associated with lone working. Over 40 teams are now using the devices, which is a discreet portable lone worker safety solution (ID badge). In times of emergency the employee can summon help via the device, the call centre staff will listen in to the situation and then take the appropriate action i.e. call the police if needed. Staff receive training in the use of the device and managers receive a monthly report to monitor use of the device.

12. Darlington Borough Council has achieved CHAS (Contractors Health and Safety Assessment Scheme) Certificate of Accreditation. This involved demonstrating compliance with the CHAS standard in line with SSIP (Safety Schemes In Procurement) Core Criteria and UK H&S Legislation and the Council has been awarded accreditation to the requirements of the CDM Regulations 2015 (Principal Designer, Designer, Principal Contractor and Contractor – Construction). Additionally the Council has demonstrated full compliance with 4 modules (Financial, Environmental, Quality and Equal Opportunities) of PAS 91.

13. The organisation has over 80 health and safety champions. Champions are Assistant Director (AD) appointed, receive health and safety training, meet regularly with AD's and play a key role in raising awareness, monitoring work practices and communicating health and safety messages.

14. The Health and Safety Team continue to carry out a schedule of health and safety audits, the purpose of which are to monitor the effective implementation of the health and safety management system against health and safety standards. In addition to these audits a comprehensive inspection programme has also been carried out to monitor health and safety practice during day to day operational activities including construction and highways projects, waste services, horticulture and culture.

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.

16. Highways are taking part along with the other North East authorities in a pilot scheme for the mapping of all underground services, once up and running this should enable authorities to have all underground service locations identified so the

information will be available on site using a tablet or mobile phone, it is hoped this system will be adopted across the country at some stage if it proves successful.

17. The Council's Street Lighting team is currently working through a programme to update our cable records. We currently have 2,500 cables recorded out of an estimated total of 4,000.

18. There was an audit by the Health and Safety Executive in August 2019 where operational activities at Allington and Lingfield depots were observed. Feedback received from the audit was very complimentary regarding the safe systems of work in place being effective. Special comment was made regarding good standards of housekeeping observed across both sites.

19. Last summer the Council carried out a £900k programme of Micro Surfacing. This process helps seal the road surface to prevent potholes forming. 103 streets totalling almost 13 miles of road were treated. Last year showed a 6% improvement of the unclassified road network and this year will see a similar sized program of work being carried out around the town.

20. After receiving strong guidance from Department for Transport, Highways are currently working on the implementation of a permit system to manage our own and utility street works. We are working on this in conjunction with other North East authorities and should be in a position to start using it from March 2020. This system will replace the existing noticing system and should help to reduce the length of time works are on the highway. The Highway Asset Management Symology system is now being managed externally which will help with the management of the new permit system as well as assets and works management.

21. The proactive tree risk management processes continue to provide positive results enabling the Council to defend the majority of storm and subsidence compensation claims received.

22. The recent court case of Witley Parish Council v Cavanagh [2018] where a tree fell from Parish Council Land onto a bus saw the Judge find that Highway trees should be inspected bi-annually. The Council has adopted this practise, which will be reflected in the Council's new Tree and Woodland Strategy 2020-2030.

Conclusion

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

Outcome of Consultation

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

APPENDIX A

RISK MATRIX
CORPORATE RISK REGISTER

LIKELIHOOD	A Very High				
	B High				
	C Significant				
	D Low			**3, 4, 5, 17**	
	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	Ian Williams	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 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
C17	Brexit could result in changes to laws, regulations, government policy or funding when/if the UK leaves the EU which could impact on Darlington Borough Council's ability to achieve its objectives	Paul Wildsmith	None at D/II		

RISK MATRIX

APPENDIX B

CHILDREN, ADULTS AND PUBLIC HEALTH

LIKELIHOOD	A Very High				
	B High			**8b**	
	C Significant		**9b**	**1**	
	D Low			**3a, 3b, 5, 9a, 10, 14a**	**14b**
	E Very Low			**8a**	
	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 3a	Inability to recruit and retain sufficient qualified suitably experienced social workers in Children's Services impacts on cost and quality of service	Jane Kochanowski	None at D/II		
C&A 3b	Inability to recruit and retain sufficient qualified suitably experienced social workers in Adult Services impacts on cost and quality of service	James Stroyan	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
C&A 5	Failure to identify vulnerable schools and broker appropriate support to address needs	Tony Murphy	None at D/II		
C&A 8a Adult	Increased demand for Adult Services impacts negatively on plans for budget efficiencies	James Stroyan	None at E/II		
C&A 8b	Increased demand for Children's Services impacts negatively on budget	Jane Kochanowski	None at B/II		See main body of report at paragraph 8 (b) ii
C&A 9a	Market (Domiciliary Care Residential Care providers) failure following the Care Act/Living Wage	Christine Shields	None at D/II		
C&A 9b	Market (Domiciliary Care Residential Care providers) for Vulnerable Families with Children (including SEND) experiences provider failure	Christine Shields	None at C/III		

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 D/II		
C&A 14a	Failure to respond appropriately to safeguard vulnerable adults, in line with national legislation and safeguarding adults procedures	James Stroyan	None at D/II		
C&A 14b	Failure to respond appropriately to safeguard vulnerable children, in line with national legislation and safeguarding children, thresholds and procedures.	Jane Kochanowski	None at D/I		See main body of report at paragraph 8 (b) iii

APPENDIX C

RISK MATRIX

ECONOMIC GROWTH & NEIGHBOURHOOD SERVICES GROUP

LIKELIHOOD					
	A Very High				
	B High				
	C Significant		**9**		
	D Low			**1, 7, 8, 13, 14, 16**	
	E Very Low			**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/ Pauline Mitchell/Dave Winstanley	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 12	Planning Performance at risk of Standards Authority intervention	David Coates	None at E/II		
EG &NS 13 **Previously RE 16**	**Risk Reworded** Significant impacts arising from the reduction in available cash/resources to the local economy, Council and businesses due to the impacts of Universal Credits	Pauline Mitchell	None at D/II		

EG & NS14 **Previously RE 24**	Regulatory 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 & NS16	**New Risk** Delay in delivering replacement cremators resulting in failure of existing equipment and therefore closure of the service	Ian Thompson	New at D/II	Work is ongoing on developing proposals to go through Planning to enable the project to be delivered during 2020-21	

APPENDIX D

RISK MATRIX

RESOURCES GROUP

LIKELIHOOD					
	A Very High				
	B High				
	C Significant		**1, 2, 9**		
	D Low		**3, 5**		
	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	**Risk Reworded** VAT partial exemption breech due to exempt VAT being close to the 5% limit	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		

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
RE16 Now EG & NS13	**Risk Reworded** Significant impacts arising from the reduction in available cash/resources to the local economy, Council and businesses due to the impacts of Universal Credits	Pauline Mitchell		Shown on Appendix C Risk Matrix	
RE24 Now EG & NS14	Regulatory 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	

AUDIT COMMITTEE
29 JANUARY 2020

ITEM NO. ....

PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT STRATEGY REPORT 2020/21

SUMMARY REPORT

Purpose of the Report

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

   (a) The Prudential Indicators and Limits for 2020/21 to 2022/23 relating to capital expenditure and Treasury Management activity.

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

   (c) The Treasury Management Strategy 2020/21, which includes the Annual Investment Strategy for 2020/21

2. The report outlines the Council's prudential indicators for 2020/21 – 2022/23 and sets out the expected treasury operations for this period. It fulfils key legislative and guidance requirements:

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

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

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

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

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

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

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

   (b) Prudent, affordable and sustainable.

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

Recommendation

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

   (a) The Prudential Indicators and limits for 2020/21 to 2022/23 summarised in Tables 1 and 2.

   (b) The Minimum Revenue Provision (MRP) statement (paragraphs 35 - 39).

   (c) The Treasury Management Strategy 2020/21 to 2022/23 as summarised in paragraphs 43 to 69.

   (d) The Annual Investment Strategy 2020/21 contained in paragraphs 70 to 109.

Reasons

5. The recommendations are supported by the following reasons :-

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

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

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

Paul Wildsmith
Managing Director

Background Papers
(i) Annual Statement of Account 2018/19
(ii) Draft Capital Strategy (incl Capital MTFP 2020/21 to 2023/24)
(iii) Link Asset Services Economic Report Dec 2019

Peter Carrick: Extension 5401

S17 Crime and Disorder	This report has no implications for S 17 Crime and Disorder.
Health and Well Being	This report has no implications for the Council's Health and Well being agenda.
Carbon Impact and Climate Change	This report has no implications for the Council's Carbon Emissions.
Diversity	This report has no implications for the Council's Diversity agenda.
Wards Affected	All Wards
Groups Affected	All Groups
Budget and Policy Framework	This report must be considered by Council.
Key Decision	This is not an executive decision
Urgent Decision	For the purposes of call in this report is not an urgent decision.
One Darlington: Perfectly Placed	This report has no particular implications for the sustainable Community Strategy.
Efficiency	The report refers to actions taken to reduce costs and manage risks.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers.

MAIN REPORT

Information and Analysis

Background

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

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

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

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

10. CIPFA defines treasury management as:

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

Reporting requirements

Capital Strategy

11. The 2017 CIPFA Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, which will provide the following:
    - a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
    - an overview of how the associated risk is managed
    - the implications for future financial sustainability

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

13. This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

    - The corporate governance arrangements for these types of activities;
    - Any service objectives relating to the investments;
    - The expected income, costs and resulting contribution;
    - The debt related to the activity and the associated interest costs;
    - The payback period (MRP policy);
    - For non-loan type investments, the cost against the current market value;
    - The risks associated with each activity

14. Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

15. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

16. To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

Treasury Management Reporting

17. The Council is required by legislation to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

Prudential and Treasury Indicators and Treasury Strategy (this report)

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

(a) The capital plans (including prudential indicators);
(b) A minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
(c) The treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
(d) An investment strategy, (the parameters on how investments are to be managed).

A Mid-Year Treasury Management Report

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

An Annual Treasury Report

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

Treasury Management Strategy for 2020/21

21. The strategy for 2020/21 covers two main areas:

(a) Capital Issues:
- the capital expenditure plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

(b) Treasury Management Issues:
- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

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

Table 1 – Capital Expenditure and Borrowing

	2019/20 Revised	2020/21 Estimated	2021/22 Estimated	2022/23 Estimated
Capital Expenditure Table 3 and 4	38.658	45.179	26.147	33.966
Capital financing requirement Table 5	216.930	226.040	227.789	225.063
Ratio of financing costs to net revenue stream – General Fund See paragraph 43/44 Table 6	3.39%	2.39%	2.24%	2.47%
Ratio of financing costs to net revenue stream – HRA See paragraph 43/44 Table 6	15.03%	17.48%	16.72%	18.15%
Operational boundary for external debt Table 8	185.258	199.118	202.992	201.877
Authorised limit for external debt Table 9	227.776	237.342	239.178	236.316

Table 2 – Treasury Management

	2020/21 Upper Limit	2021/22 Upper Limit	2022/23 Upper Limit
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	40%	40%	40%
Maximum principal sums invested > 364 days	£50m	£50m	£50m
Maturity Structure of fixed interest rate borrowing 2020/210			
		Lower Limit	**Upper Limit**
Under 12 months		0%	40%
12 months to 2 years		0%	50%
2 years to 5 years		0%	60%
5 years to 10 years		0%	80%
10 years and above		0%	100%

Training

24. The CIPFA code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny.

Training was undertaken by a number of Members during 2 sessions held in March 2018 and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

Treasury Management Consultants

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

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

The Capital Prudential Indicators 2020/21– 2022/23

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

Capital Expenditure

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

Table 3 Capital Expenditure

	2019/20 Revised £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
General Fund	17.280	15.457	4.157	14.157
HRA	10.834	28.843	23.486	20.936
Estimated Capital Expenditure	**28.114**	**44.300**	**27.643**	**35.093**
Loans to Joint Ventures	10.544	0.879	(1.496)	(1.127)
Total	**38.658**	**45.179**	**26.147**	**33.966**

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

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

Table 4 Financing of the Capital Programme

	2019/20 Revised £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
General Fund	17.280	15.457	4.157	14.157
HRA	10.834	28.843	23.486	20.936
Loans to Joint Ventures	10.544	0.879	(1.496)	(1.127)
Total Capital	**38.658**	**45.179**	**26.147**	**33.966**
Financed by:				
Capital receipts -General Fund	1.705	0.800	0.400	0.400
Capital receipts - Housing	0.200	0.303	0.303	0.303
Capital grants	14.753	8.757	3.757	3.757
Self financing - GF	0.000	0.500	0.000	10.000
Revenue Contributions (Housing)	`10.634	10.551	5.551	5.551
HRA Investment Fund	0.000	8.722	4.982	4.982
Total excluding borrowing	**27.292**	**29.633**	**14.993**	**24.993**
Borrowing need	**11.366**	**15.546**	**11.154**	**8.973**

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

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

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

33. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI or lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £11.498m of such schemes within the CFR.

34. The Council is asked to approve the CFR projections below:

Table 5 – CFR Projections

	2019/20 Revised £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
CFR – General Fund	119.680	124.680	124.680	124.680
CFR – PFI and Finance leases	11.498	10.358	9.232	8.117
CFR - housing	68.967	73.338	77.709	77.225
CFR - Loans to Joint Ventures	16.785	17.664	16.168	15.041
Total CFR	**216.930**	**226.040**	**227.789**	**225.063**
Movement in CFR		**9.110**	**1.749**	**(2.726)**

MRP Policy Statement

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

36. MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

37. It is proposed that Darlington Borough Council's MRP policy statement for 2020/21 will be:

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

(b) Capital Expenditure from 1 April 2008 for all unsupported borrowing MRP will be based on the estimated life of the assets, repayments will be on an annuity basis (2%)

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

(d) Where MRP has been overcharged in previous years, the recovery of the overcharge will be affected by reducing the MRP charges, due in full or in part for 2020/21 and in future years, which would otherwise have been made. The MRP adjustment for 2020/21 and in future years charge will be done in such a way as to ensure that:-

- the total MRP after applying the adjustment will not be less than zero in any financial year,

- the cumulative amount adjusted for will never exceed the amount over-charged,
- the extent of the adjustment will be reviewed on an annual basis.

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

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

Affordability Prudential Indicators

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

Estimates of the ratio of financing costs to net revenue stream.

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

Table 6 - Ratio of financing costs to net revenue stream

	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Fund	3.39%	2.39%	2.24%	2.47%
HRA	15.03%	17.48%	16.72%	18.15%

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

Treasury Management Strategy

Borrowing

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

Under Borrowing position

44. Over the last ten years the Council had maintained an underborrowed position i.e. the amount of our gross external borrowing has been less than our balance sheet Capital Financing Requirement. This strategy has served the Council well in a period where returns on investment have been low and borrowing costs have been relatively high. This has also meant that we have had less in the form of investments and so reduced counterparty risk. To support the MTFP it was agreed that longer term investments would be pursued as these would give a return over and above the cost of any additional borrowing that would be taken. Following due diligence the Council has 3 Property Funds with £10 million in each fund and these are expected to bring a net return of around 2.5% over the life of the MTFP. Additional borrowing of £25m was undertaken which resulted in the underborrowed position being reduced.

Current Portfolio Position

45. The Council's expected treasury portfolio position at 31 March 2020, with forward projections summarised below at Table 7. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 7 - Gross Borrowing to CFR

	2019/20 Revised £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Debt at 31 March	154.975	169.096	175.592	176.719
Loans to Joint Ventures	16.785	17.664	16.168	15.041
Other long-term liabilities (OLTL)	11.498	10.358	9.232	8.117
Gross Actual debt at 31 March	**183.258**	**197.118**	**200.992**	**199.877**
The Capital Financing Requirement from Table 5	**216.930**	**226.040**	**227.789**	**225.063**
Under / (over) borrowing	**33.672**	**28.922**	**26.797**	**25.186**

46. Within the Prudential Indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that the borrowing is not undertaken for revenue or speculative purposes.

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

Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

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

Table 8 - Operational Boundary

	2019/20 Revised £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Debt from Table 7	171.760	186.760	191.760	191.760
Other long term liabilities	11.498	10.358	9.232	8.117
Prudential Borrowing for leasable assets	1.000	1.000	1.000	1.000
Prudential Borrowing under Directors Delegated Powers	1.000	1.000	1.000	1.000
Operational Boundary	**185.258**	**199.118**	**202.992**	**201.877**

The Authorised Limit for external debt

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

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

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

Table 9 – Authorised Limit

	2019/20 Revised £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
CFR	216.930	226.040	227.789	225.063
Additional Headroom @ 5%	10.846	11.302	11.389	11.253
Authorised Limit	**227.776**	**237.342**	**239.178**	**236.316**

52. It is proposed that the additional headroom for years 2020/21 to 2022/23 is 5% above the CFR, this would allow for any additional cash flow needs throughout the years.

Prospects for Interest Rates

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

Table 11

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including *certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Mar 2020	0.75	2.40	2.70	3.30	3.20
Jun 2020	0.75	2.40	2.70	3.40	3.30
Sep 2020	0.75	2.50	2.70	3.40	3.30
Dec 2020	1.00	2.50	2.80	3.50	3.40
Mar 2021	1.00	2.60	2.90	3.60	3.50
Jun 2021	1.00	2.70	3.00	3.70	3.60
Sep 2021	1.00	2.80	3.10	3.70	3.60
Dec 2021	1.00	2.90	3.20	3.80	3.60
Mar 2022	1.00	2.90	3.20	3.90	3.70
Jun 2022	1.25	3.00	3.30	4.00	3.80
Sep 2022	1.25	3.10	3.30	4.00	3.90
Dec 2022	1.25	3.20	3.40	4.10	3.90
Mar 2023	1.25	3.20	3.50	4.10	4.00

** The certainty rate adjustment is a reduced rate by 0.20% for those councils like Darlington Borough Council who have submitted more detail on future borrowing requirement to the Treasury*

Investment and borrowing rates

54. Investment returns are likely to remain low during 2020/21 with little increase in the following 2 years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.

55. Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 basis points (bps) on 9 September 2019. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase off 100bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management.

56. Although the gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%, it is still likely that this authority will do some further long term borrowing due to the abolition of the HRA debt cap which will enable the Council to borrow to enhance its social housing stock.

57. While the Council will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a

cost of carry (the difference between higher borrowing costs and lower investment returns), so any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Borrowing Strategy

58. The Council is currently maintaining an under-borrowed position although this has reduced from previous years. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue to be considered.

59. Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Assistant Director Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

    (b) If it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

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

Treasury Management Limits on Activity

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

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

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

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

Table 12 Interest Rate Exposure

	2020/21	2021/22	2022/23
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%
Maturity Structure of fixed interest rate borrowing 2020/21			
		Lower	**Upper**
Under 12 months		0%	40%
12 months to 2 years		0%	50%
2 years to 5 years		0%	60%
5 years to 10 years		0%	80%
10 years and above		0%	100%

Policy on Borrowing in Advance of Need

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

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

Debt Rescheduling

64. Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

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

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

    (b) helping to fulfil the treasury strategy;

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

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

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

New Financial Institutions as a source of borrowing

68. Following the decision by the PWLB to increase their margin over gilt yield by 100bps points to 180bps on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bond Agency (no issuance at present but there is potential)

69. The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of wrting but our advisors will kepp us informed.

Annual Investment Strategy

Investment and Creditworthiness Policy

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

71. The Council’s investment policy has regard to the following:

(a) MHCLG’s Guidance on Local Government Investments (“the Guidance”)
(b) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)
(c) CIPFA Treasury Management Guidance Notes 2018

72. The Council’s investment priorities will be security first, liquidity second and then yield (return).

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

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

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

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

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

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

- Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.Once an investment is classed as non-specified, it remains non-specified all the way through to maturity. i.e. an 18 month deposit would still be non-specified even it it has only 11 months left until maturity.

e) Non-specified investment limit. The Council has determined that it will limit the maximum total exposure to non-specified investments as being X% of the total investment.

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

g) Transaction limits are set for each type of investment in Table 13

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

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

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

k) All investments will be denominated in sterling.

l) As a result of the change in accounting standards for 2019/20 under International Financial Reporting Standard (IFRS) 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018 the Ministry of Housing, Communities and Local Government [MHCLG], conlcuded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for 5 years commencing from 1 April 2018).

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

Investment Counterparty Selection Criteria

75. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure that:

(a) It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below; and

(b) It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

76. The Assistant Director Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified (see appendix 2 for definitions) as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

77. The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

78. Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating Outlooks (notification of a longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

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

80. The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

(a) Banks 1 - good credit quality – the Council will only use banks which:

I. Are UK banks; and/or
II. Are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AA-

and have, as a minimum, the following Fitch, Moody's and Standard & Poors credit ratings (where rated):

I. Short Term – F1
II. Long Term – A-

(b) Banks 2 – Part nationalised UK banks – Royal Bank of Scotland ring-fenced operations. These banks can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.

(c) Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.

(d) Building societies -The Council will use all societies which meet the ratings for the banks outlined above and have assets in excess of £1,000m.

(e) Money Market Funds (MMFs) CNAV AAA
(f) Money Market Funds (MMF's) LNVAV AAA
(g) Money Market Funds (MMF's) VNAV AAA

(h) Ultra-Short Dated Bond Funds AAA

(i) UK Government (including gilts, Treasury Bills and the DMADF)

(j) Local authorities, parish councils etc

(k) Supranational institutions

(l) Housing associations

(m) Property Funds, Corporate Bond Funds and Asset Backed Investment Products.

81. A limit of £50m will be applied to the use of non-specified investments.

Use of additional information other than credit ratings

82. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments.

83. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified Investments)

84. In order to determine time limits for investments the Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard & Poors. The credit ratings of counterparties are supplemented with the following overlays:

(a) credit watches and credit outlooks from credit rating agencies;

(b) Credit Default Swap price spreads to give early warning of likely changes in credit ratings;

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

85. The Council will therefore use the following durational bands when applying time limits to investments

(a) Yellow Maximum 2 years *This only relates to AAA rated government debt or its equivalent
(b) Purple Maximum 2 years
(c) Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
(d) Orange 1 year
(e) Red 6 months
(f) Green 3 months

Table 13 – Time and monetary limits applying to investments

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 high quality	AA-	£5m	Maximum of 2 years Suggested duration using Link Asset Services colour coding (CDS adjusted with manual override)
Banks 1 medium quality	A	£4m	Maximum of 1 year Suggested duration using Link Asset Services colour coding (CDS adjusted with manual override)
Banks 1 lower quality	A-	£3m	Maximum of 1 year Suggested duration using Link Asset Services colour coding (CDS adjusted with manual override)
Banks 2 category – part nationalised	N/A	£5m	Maximum of 1 years
Banks 3 category – Council's banker (not meeting Banks 1)		£3m	1 day
DMADF (Debt Management Office)	AAA	unlimited	6 months
UK Government Treasury Bills	UK sovereign rating	unlimited	Maximum of 1 year
Local authorities	N/A	£5m per Local Authority	Up to 2 years
Money market Funds (CNAV, LVNAV & VNAV) and Ultra Short Dated Bond Funds	AAA	£5m per Fund	liquid
Property Funds, Corporate Bond Funds and other Asset backed Investment products	Non Rated Due Diligence required	£20m per Fund	10 years

86. In addition to sterling deposits either on a fixed term call or notice basis deposits in banks or Building Societies which meet our criteria, may be made via certificates of deposits where appropriate.

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

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

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

(b) in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

89. Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

Investment Strategy

In-house funds

90. 'Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping the most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations

91. On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

(a) Q1 2021 0.75%
(b) Q1 2022 1.00%
(c) Q1 2023 1.00%

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

(a) 2019/20 0.75%
(b) 2020/21 0.75%
(c) 2021/22 1.00%
(d) 2022/23 1.25%
(e) 2023/24 1.50%
(f) 2024/25 1.75%

(g) Later years 2.25%

93. The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

94. The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similar to the downside.

95. In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

Investment treasury indicator and limit

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

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

Table 14 – Maximum Principal sums invested

	2020/21	2021/22	2022/23
Principal sums invested greater than 365 days	£50m	£50m	£50m

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

Investment Risk Benchmarking

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

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

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

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

(a) Bank overdraft - £0.100m

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

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

102. Yield - local measures of yield benchmarks are:

(a) Investments – Short Term- cash flow investment rate returned against comparative interest rates

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

103. And in addition that the security benchmark for each individual year is:

Table 15 - Security Benchmark

	1 year	2 years
Maximum	0.077%	0.077%

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

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

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

End of year investment report

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

Policy on the use of external service providers

107. The Council uses Link Asset Services as its external treasury management advisors. The company provides a range of services which include:

(a) Technical support on treasury matters, capital finance issues and the drafting of Member reports;

(b) Economic and interest rate analysis;

(c) Debt services which includes advice on the timing of borrowing;

(d) Debt rescheduling advice surrounding the existing portfolio;

(e) Generic investment advice on interest rates, timing and investment instruments;

(f) Credit ratings from the three main rating agencies and other market information on counterparties.

108. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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

Outcome of Consultation

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

APPENDIX 1

Economic Background provided by Link Asset Services

1. **GLOBAL OUTLOOK. World growth** has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and together with weakening economic activity in China and the eurozone, overall world growth is likely to weaken.

2. **Inflation** has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

3. **KEY RISKS - central bank monetary policy measures**
   Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

4. The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we have indeed, seen a sharp fall in equity values in the last quarter of 2018. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.** At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and was likely to cause a recession in the US economy

5. The world economy also needs to adjust to a sharp change in liquidity creation over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt, (currently about $50bn per month). In addition, the European Central Bank ended QE purchases in December 2018.

6. **UK**. The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

7. At their November quarterly inflation meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years time but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also raise Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

8. It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019 (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

9. **Inflation**. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.3% in November 2018. In the November Bank of England quarterly inflation report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour.

10. As for the labour market figures in October 2018, unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay,

excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.0%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

11. In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

12. **USA**. President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2% in November, however, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the rate and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles, of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world plunging under the weight of fears around the Fed's actions, the trade war between the US and China, an expectation that world growth will slow, Brexit etc.

13. The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China. The results of the mid-term elections are not expected to have a material effect on the economy.

14. **Eurozone**. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit

through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the EU economy is on a weakening trend.

15. **China**. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; 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. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

16. **Japan -** has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

17. **Emerging countries.** Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

INTEREST RATE FORECASTS

18. The interest rate forecasts provided by Link Asset Services in paragraph 3.2 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

19. The balance of risks to the UK
    - The overall balance of risks to economic growth in the UK is probably neutral.
    - The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

20. One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new

environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

21. **Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:**
    - Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth.
    - Bank of England monetary policy takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
    - A resurgence of the Eurozone sovereign debt crisis, possibly in Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. The EU rejected the initial proposed Italian budget and demanded cuts in government spending which the Italian government has refused. However, a fudge was subsequently agreed but only by delaying the planned increases in expenditure to a later year. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the words and actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
    - Weak capitalisation of some European banks. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
    - **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.
    - **Other minority eurozone governments**. Spain, Portugal, Ireland, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition

with. The Belgian coalition collapsed in December 2018 but a minority caretaker government has been appointed until May EU wide general elections.

- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a sudden flight of investment funds from more risky assets e.g. shares, into bonds yielding a much improved yield. Throughout the last quarter of 2018, we saw a sharp fall in equity markets but this has been limited, as yet. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of US corporate debt which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows**.**

22. **Upside risks to current forecasts for UK gilt yields and PWLB rates**

- **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Appendix 2

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

1. The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

2. The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 21st March 2002 and will apply its principles to all investment activity. In accordance with the Code, the Assistant Director Resources has produced its Treasury Management Practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual Investment Strategy

3. The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year*,* covering the identification and approval of the following:

   a) The strategy guidelines for choosing and placing investments, particularly non-specified investments.

   b) The principles to be used to determine the maximum periods for which funds can be committed.

   c) Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.

   d) Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

4. The investment policy proposed for the Council is:

Strategy Guidelines

5. The main strategy guidelines are contained in the body of the treasury strategy statement.

All Investments

6. The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

(a) Banks 1 - good credit quality – the Council will only use banks which:

i. are UK banks; and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
    a. Fitch Short Term equivalent – F1
    b. Fitch Long term equivalent – A-

(b) Banks 2 Non UK banks based on the following very high quality criteria using a lowest common denominator approach and only where sovereign ratings are AAA.

    a. Fitch Short Term equivalent – F1+
    b. Fitch Long Term equivalent – AA-

(c) Banks 3 – Part nationalised UK banks – Lloyds Bank Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

(d) Banks 4 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

(e) Building societies The Council will use all societies which:

i. meet the ratings for banks outlined above and have assets in excess of £1,000m

(f) Money Market Funds (CNAV, LVNAV & VNAV) AAA

(g) Ultra Short Dated Bond Funds AAA

(h) UK Government (including gilts Treasury Bills and the Debt Management Office)

(i) Local authorities, parish councils etc.

(j) Supranational institutions

(k) Property Funds ,Corporate Bond Funds and Asset Backed Investment Products

7. A limit of £50M will be applied to the use of Non-Specified investments.

Specified Investments

8. These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

   (a) The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
   (b) Supranational bonds of less than one year's duration.
   (c) A local authority, housing association, parish council or community council.
   (d) Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category f. above, this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and/or Fitch rating agencies.
   (e) A body that is considered of a high credit quality (such as a bank or building society). For category a and b this covers bodies with a minimum short term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and/or Fitch rating agencies.

9. Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are:

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 category high quality	**AA-**	**£5M**	**Maximum of 2 years Suggested duration using Link Asset Services colour coding (CDS adjusted with manual override)**
Banks 1 category medium quality	**A**	**£4M**	**Maximum of 1 year Suggested duration using Link Asset Services colour coding (CDS adjusted with manual override)**
Banks 1 category lower quality	**A-**	**£3M**	**Maximum of 1 year Suggested duration using Link Asset Services colour coding (CDS adjusted with manual override)**
Banks 2 Non UK (only where sovereign ratings are AAA)	**AA-**	**£3M**	**Maximum of 1 year Suggested duration using Link Asset Services colour coding (CDS adjusted with manual override)**
Banks 3 category – part nationalised	**N/A**	**£5M**	**Maximum of 1 year**
Banks 4 category – Council's banker (not meeting Banks 1,2 and3)		**£3M**	**1 day**
DMADF (Debt Management Office)	**AAA**	**unlimited**	**6 months**
Local authorities	**N/A**	**£5M per Local Authority**	**Up to 1 years**
Money market Funds (CNAV, LVNAV & VNAV) and Ultra Short Dated Bond Funds	**AAA**	**£5M per Fund**	**liquid**

10. The Council will therefore use the following durational bands supplied by Link Asset Service's creditworthiness service when applying time limits to investments

    a. Yellow Maximum 2 years *This only relates to AAA rated government debt or its equivalent
    b. Purple Maximum 2 years
    c. Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
    d. Orange 1 year
    e. Red 6 months
    f. Green 3 months

Non-Specified Investments

11. Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	Limit (£ or %)
a.	**Supranational Bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. National Rail, The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA long term ratings
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	
c.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	£3m
d.	**Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings.	£5m
e.	Any **bank or building society** that has a minimum long term credit rating of AA-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£5m
f.	**Local Authorities**	£5m per authority
g.	**Property Funds, Corporate Bond Funds and Other Asset backed Investment products** The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using	£20m per Fund

12. Within categories c and d, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. Time limits will be applied to banks using the creditworthiness service provided by Link Asset Services. And for part-nationalised banks will be up to 2 years.

13. Time limits for Property Funds, Corporate Bond Funds and Asset Backed Investment Products will be up to 10 Years, Local Authorities up to 2 years.

The Monitoring of Investment Counterparties

14. The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Assistant Director Resources, and if required new counterparties which meet the criteria will be added to the list.

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AUDIT COMMITTEE
29 JANUARY 2020

ACCOUNTING POLICIES TO BE APPLIED TO THE 2019/20 FINANCIAL STATEMENTS

SUMMARY REPORT

Purpose of the Report

1. To update Members on the accounting policies to be applied in the preparation of the 2019/20 Statement of Accounts (SoA).

Summary

2. This report confirms that the majority of the Accounting Policies used in the preparation of the 2018/19 Statement of Accounts remain appropriate.

Recommendation

3. The Committee reviews the accounting policies and approves their use in the preparation of the 2019/20 financial statements.

Reasons

4. The recommendations are supported to provide the Audit Committee with evidence to reflect on progress in delivery of the 2019/20 Statement of Accounts.

Paul Wildsmith
Managing Director

Background Papers

Code of Practice on Local Authority Accounting In the UK 2019/20

Peter Carrick: Extension 5401

S17 Crime and Disorder	There is no specific crime and disorder impact.
Health and Well Being	There is no specific heath 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	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.

MAIN REPORT

5. The Accounts and Audit Regulations 2015 and the Local Government Act 2003 require that the Statement of Accounts is produced in accordance with proper accounting practices.

6. One of the responsibilities of the Audit Committee is:

7. *'To review the annual statement of accounts prior to approval. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council'.*

8. Accounting policies are defined in the CIPFA Code of Practice for Local Authority Accounting in the UK 2019/20 as the 'specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements'.

9. The proposed accounting policies are in line with those used in the preparation of the 2018/19 accounts.

10. Although work is ongoing to establish the effect of IFRS 9 on the Council's accounts there is a statutory override introduced by the Government that enables the Council to take advantage of it in its treatment of its property funds. This statutory override is in place for a minimum of 5 years up to March 2023.

11. The full list of accounting policies the Council proposes to disclose in its Statement of Accounts notes are detailed in **Appendix 1**.

Appendix 1

Statement of Accounting Policies

a) General principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. 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 under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

- 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. 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 (CIES) 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 CIES 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.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the financing and investment income and expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

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 entitlements 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 projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 2.4% (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.
- 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 based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics.

There are three main classes of financial assets measured at:

- amortised cost,
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial assets measured at amortised cost

Financial assets measured at amortised cost 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 most of the financial assets held by the Council, 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.

The Council has the facility to make loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the comprehensive income and expenditure statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement at a marginally higher effective rate of interest than the rate receivable from the recipients of the loans, with the difference serving to increase the amortised cost of the loan in the balance sheet. Statutory provisions require that the impact of soft loans on the general fund balance is the interest receivable for the financial year - the reconciliation of amounts debited and credited to the comprehensive income and expenditure statement to the net gain 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.

Any gains or losses that arise on the derecognition of an asset are credited or debited to the financing and investment income and expenditure line of the comprehensive income and expenditure statement.

Expected credit loss model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Council has a porfolio of a number of loans to local businesses. It does not have reasonable and supportable information that is available without undue cost or effort to support the measurement of lifetime losses on an individual instrument basis. It has therefore assessed losses for the portfolio on a collective basis.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets that are measured at FVOCI 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. Fair value gains and losses are recognised as they arise in other comprehensive income.

Financial assets measured at fair value through profit and loss (FVPL)

Financial assets that are measured at FVPL 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. Fair Value gains and losses are recognised as they arise in the surplus or deficit on the provision of services.

Fair value measurements of financial assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the Council’s financial assets are based on the following techniques:

- instruments with quoted market prices - the market price
- other instruments with fixed and determinable payments - discounted cash flow analysis.

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.

Any gains or 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.

An equity instrument can be elected into a FVOCI treatment rather than a FVPL treatment if it is not held for trading. The Council has reviewed its assets that would be measured at FVPL on the basis of the business model and has elected to classify instruments as either FVPL or FVOCI on an instrument by instrument basis based on the assessed benefit to the Council from the chosen classification.

As far as Durham Tees Valley Airport shares are concerned the Council has elected to treat them as an equity instrument which is not held for trading and therefore will be utilising the FVOCI treatment.

Instruments entered into before 1st April 2006

The Council has a financial guarantee that is not required to be accounted for as a financial instrument. This guarantee is reflected in the statement of accounts to the extent that it shown in contingent liabilities (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 and expenditure (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.

k) 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. 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.

l) Interests in companies and other entities

The Code of Practice on Local Authority Accounting 2019/20 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 interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare 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.

m) 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.

Long-term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

n) 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.

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.

o) 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).

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.

p) 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.

q) 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.

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:

- dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the valuer;

- 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.

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 general fund.

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 previously recognised losses in the surplus or deficit on the 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.

r) 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 (unless the PFI scheme is a school that has subsequently transferred to Academy status and then it will be removed from the Council's balance sheet).

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).

s) 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.

t) 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.

u) 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.

v) 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 (HMRC). VAT receivable is excluded from income.

If the Council was unable to recover exempt input tax it would be included as an expense in the comprehensive income and expenditure statement.

w) 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.

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:

- in the principal market for the asset or liability, or
- 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 - quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - unobservable inputs for the asset or liability.

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.

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AUDIT COMMITTEE
29 JANUARY 2020

FINAL ACCOUNTS TIMETABLE FOR THE YEAR ENDED 31 MARCH 2020

SUMMARY REPORT

Purpose of the Report

1. To provide Members with the Final Accounts Closedown Timetable for 2019/20. This timetable details the target dates for key actions in order to complete the Statement of Accounts (SoA) in line with statutory deadlines.

Summary

2. It is the responsibility of the Assistant Director Resources to sign and certify the unaudited SoA 2019/20 by no later than 31 May 2020 and it is also the responsibility of the Audit Committee to approve the audited set of accounts on or before 31 July 2020.

3. The final accounts timetable serves as a tool for monitoring progress against the target dates to ensure compliance with the statutory deadlines.

Recommendation

4. Members are asked to note the key dates in the Final Accounts Timetable for 2019/20 detailed in Appendix 1.

Reasons

5. The recommendations are supported to provide the Audit Committee with evidence to reflect on progress in delivery of the 2019/20 Statement of Accounts.

Paul Wildsmith
Managing Director

Background Papers

Code of Practice on Local Authority Accounting in the UK 2019/20

Peter Carrick: Extension 5401

S17 Crime and Disorder	There is no specific crime and disorder impact.
Health and Well Being	There is no specific heath 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	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.

MAIN REPORT

6. The Accounts and Audit Regulations 2015 require that the responsible financial officer, by no later than the 31 May, signs and certifies that the SoA presents a true and fair view of the financial position of the Council for the year to 31 March previous, subject to the views of the External Auditor, Ernst & Young (EY).

7. The Regulations then require that on or before 31 July, approval needs to be given to the SoA by resolution of a committee, which for Darlington is the Audit Committee. This approval will take into account the views of the External Auditor.

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

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

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

Appendix 1

2019/2020 Accounts - General Closure Timetable

Date for Completion		Item
March		
	27	On-line goods receipting of orders relating to 2019/2020 to be completed (including order authorisation).
	27	End of facility for on-line processing of purchase invoices in Business World On! relating to 2019/2020 to be posted to period 12 of that year.
	27	Capital Charges to revenue accounts
April		
	6	All interface files posted to Council's General Ledger
	6	Petty cash and stock valuation certificates, certified by authorised signatories, sent to Financial Services.
	6	Details of purchase invoices and sundry debtor accounts relating to 2019/2020 not paid by 31/03/2020 to be given to Departmental Finance Teams for provision in 2019/2020 accounts (invoice values above £500 only).
	9	Bank reconciliation to be completed
	17	Work in progress, Retentions & Income in Advance from Building Services included in accounts for both trading and client accounts. Expenditure provisions and provision for future losses for Trading Accounts in Place based Services.
	17	All expenditure and income relating to 2019/2020 identified and included in accounts to enable progress of next stages of process.
	17	Control accounts balanced and all holding accounts cleared.
	17	Internal recharges completed including inter-departmental recharges.
	17	Intra-departmental apportionments and reallocations completed
	24	Comparison of out-turn income and expenditure with approved budgets - including analysis of significant variances and any resulting corrective action including coding corrections.
	24	Departmental Financing of capital expenditure.
	30	**Accounts Closed**
May		
	1	Commence process of consolidation of individual cost-centre and subjective level accounts into statutory format for Statement of Accounts (SoA).
	31	Produce signed Statement of Accounts.
	31	Publication of unaudited Accounts on website.
July	31	Audit Committee Meeting – approval of Statement of Accounts
	31	Publication of audited Statement of Accounts

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AUDIT COMMITTEE
29 January 2020

ITEM NO.

AUDIT SERVICES ANNUAL AUDIT PLAN 2019/20 – PROGRESS REPORT

SUMMARY REPORT

Purpose of the Report

1. To provide Members with a progress report against the 2019/20 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. In relation to Audit Services' performance a detailed report is provided with good progress to date.

Recommendation

4. It is recommended that the progress report against the 2019/20 Annual Audit Plan be noted.

Reasons

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

Andrew Barber
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

6. The Annual Audit Plan for 2019/20 was approved by the Audit Committee in June 2019.

7. 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.

8. Appendix 1 provides members with detailed feedback on the performance of the service and the position in relation to completion of the audit plan. Good progress has been made to date.

9. The audit team is no longer at full capacity with one auditor having left and a second has now submitted their resignation. In response to this a number of audits have been identified as lower priority and are detailed in the attached appendix.

10. 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.

11. 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

12. The Shared Service has also responded to routine requests from Groups for advice and guidance on operational matters.

Outcome of Consultation

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

Appendix 1

INTERNAL AUDIT
AUDIT COMMITTEE UPDATE REPORT

2019/20

1 AUDIT PROGRESS

1.1 The plan, approved on 19 June 2019, 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 as at 2 January 2020

Department	Planned Audits	Cancelled Audits	Unplanned Audits	Revised Audits	Completed	In Progress	Under Review	Drafts Issued	Not Started	Ready to Start
Children's and Adult Services	17	2	0	15	3	7	0	0	5	0
Economic Growth & Neighbourhood Services	17	3	0	14	8	2	1	0	2	1
Resources	6	0	0	6	2	2	0	2	0	0
Law & Governance	3	1	0	2	0	0	1	0	1	0
Schools	2	0	0	2	1	1	0	0	0	0
Xentrall	11	0	0	11	2	9	0	0	0	0
Corporate	13	2	0	11	0	8	0	0	3	0
Contingency	7	0	0	7	7	0	0	0	0	0
SBC Only	3	0	2	5	3	1	0	1	0	0
TVCA Only	0	0	0	0	0	0	0	0	0	0
Totals	**79**	**8**	**2**	**73**	**26**	**30**	**2**	**3**	**11**	**1**

Actual Days Compared to Planned Days

1.2 The Audit Plan is constantly revised during the year to take account of changing requirements. Amendments to the Plan agreed on 19 June 2019 can be summarised as follows:

2019/20 Planned Audits Amalgamated/Cancelled/Deferred

- Asset Register – Low priority, no issues in previous year, external audit provide oversight
- Absence Management – Significant work undertaken in previous year, assurance managers have access to more detailed reporting than previously.
- Development Services – Large piece of work undertaken in previous year so lower priority for current year.
- Land Charges – Work undertaken in previous year, low risk audit on the plan.
- Building Control – Work undertaken in previous year, no issues identified.
- First Contact – Service is currently being reviewed.
- Emergency Duty Team – Service is currently being reviewed
- Scheme of Delegation – Low priority audit.

2019/20 Unplanned Audits Added to the Plan

- Two unplanned audits have been added to the plan, both relate to SBC only.

1.3 Counter Fraud

During the year both the website and intranet have been updated with a fully revised fraud page. This provides some useful videos and tips on identifying and preventing fraud as well as links to other resources.

The National Fraud Initiative data has been submitted with results received and now being investigated.

The strategy has been updated and was the subject of a separate report.

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.	12	46
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.	4	15
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.	1	4
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.	9	35
	Total	26	

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.	24	63
Low	Beneficial to the improvement of internal controls, which will support the achievement of objectives.	14	37
	Total	38	

Details of Audits by Service Group

2019/20

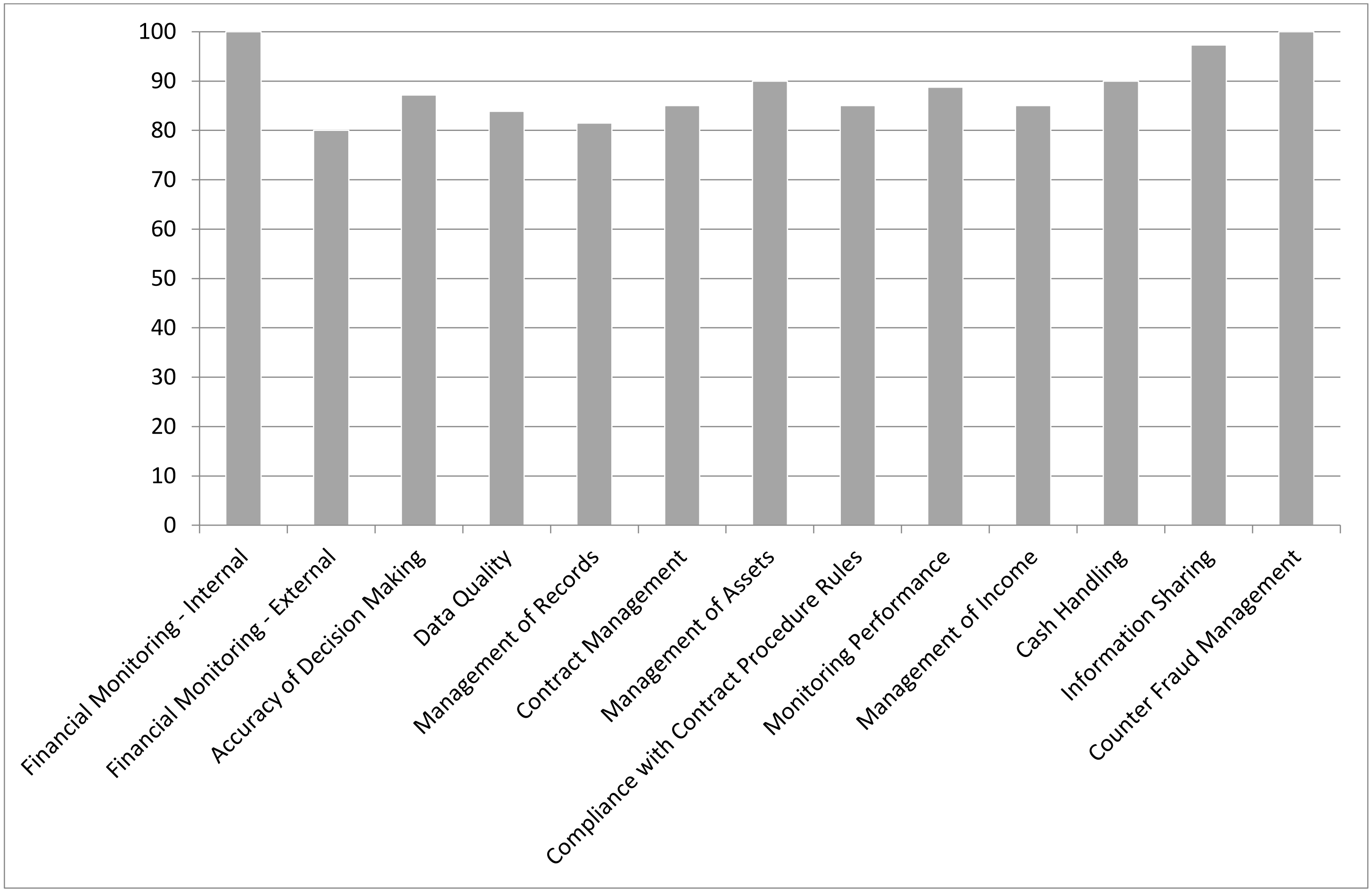
Department	No. of Audits Issued	Opinions						No. of Recs Made	Previous Recommendations			
		Full	Sub	Mod	Lim	None	N/A		Tested	Passed	Failed	N/A
Children's and Adult Services	3	2	1	0	0	0	0	3	9	7	1	1
Economic Growth & Neighbourhood Services	8	4	3	1	0	0	0	28	0	0	0	0
Resources	2	2	0	0	0	0	0	4	0	0	0	0
Law & Governance	0	0	0	0	0	0	0	0	0	0	0	0
Schools	1	1	0	0	0	0	0	2	0	0	0	0
Xentrall	2	2	0	0	0	0	0	0	0	0	0	0
Corporate	0	0	0	0	0	0	0	0	0	0	0	0
Contingency	7	1	0	0	0	0	6	0	0	0	0	0
SBC Only	3	0	0	0	0	0	3	1	0	0	0	0
TVCA Only	0	0	0	0	0	0	0	0	0	0	0	0
Total	26	12	4	1	0	0	9	38	9	7	1	1

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
Children's and Adult Services	8	2	5	0	0	0	0	18	6	1	3	2
Economic Growth & Neighbourhood Services	15	4	10	0	0	0	1	24	43	22	18	1
Resources	3	1	2	0	0	0	0	11	0	0	0	0
Law & Governance	4	2	1	0	0	0	1	5	7	2	1	1
Schools	1	1	0	0	0	0	0	0	0	0	0	0
Xentrall	13	11	1	0	0	0	1	0	0	0	0	0
Corporate	7	2	4	0	0	0	0	9	0	0	0	0
Contingency	7	1	0	0	0	0	1	0	0	0	0	0
SBC Only	2	0	0	0	0	0	0	0	0	0	0	0
TVCA Only	2	0	0	0	0	0	0	0	0	0	0	0
Total	62	24	23	0	0	0	4	67	56	25	22	4

Trend Analysis

2.4 Below is a graph demonstrating the level of compliance across a number of themed tests. All areas are shown as Substantial Assurance (70%).



2.5 Shown below is a list of all the audit engagements undertaken during the year together with their assurance opinion.

2019/20 Audit Plan Current Position as at 2 January 2020

Department	Audit ID	Name	Status	Assurance	Recommendations L	M	H	C	Bud	Rem	Final Var 111.7
Corporate	2606	Absence Management	Cancelled						10.0	9.5	
Xentrall	2607	Active Directory	In Progress						6.0	1.6	
Economic Growth & Neighbourhood Services	2610	Building Control	Cancelled						7.0	6.8	
Xentrall	2611	Cloud Computing	In Progress						5.0	2.4	
Economic Growth & Neighbourhood Services	2612	Asset Register/Asset Management	Cancelled						7.0	7.5	
Children's and Adult Services	2615	Child Placement - Adoption	Complete	Substantial Assurance	0	0	0	0	7.0		-12.0
Xentrall	2617	Creditors	In Progress						20.0	18.4	
Resources	2620	Client Financial Services	Draft						12.0	4.9	
Law & Governance	2621	Complaints Review	Not Started						9.0	9.3	
Children's and Adult Services	2622	Community Transport	In Progress						7.0	7.4	
Xentrall	2623	Change Control	In Progress						6.0	5.4	
Economic Growth & Neighbourhood Services	2632	Housing Benefits	In Progress						18.0	0.0	
Xentrall	2634	Debtors	In Progress						16.0	0.0	
Law & Governance	2642	Land Charges	Cancelled						6.0	6.4	
Children's and Adult Services	2646	Leaving Care	In Progress						7.0	0.0	
Children's and Adult Services	2648	First Contact	Cancelled						3.0	2.4	
Corporate	2653	DBS Procedures	In Progress						6.0	0.7	
Economic Growth & Neighbourhood Services	2654	Development Services	Cancelled						9.4	9.8	

Children's and Adult Services	2656	Early Years & Complex Needs	Not Started						8.0	9.1	
Xentrall	2657	Virtualisation	In Progress						6.0	3.4	
Children's and Adult Services	2658	Emergency Duty Team	Cancelled						3.0	3.0	
Children's and Adult Services	2659	Looked After Children	In Progress						12.0	11.2	
Corporate	2660	Officer Payments - Mileage	In Progress						8.0	4.8	
Resources	2664	Treasury Management	Complete	Full Assurance	4	0	0	0	7.0		0.4
Resources	2665	VAT	In Progress						6.0	4.2	
Economic Growth & Neighbourhood Services	2666	Taxation	Complete	Full Assurance	0	0	0	0	12.0		3.4
Corporate	2667	Recruitment Services	Not Started						6.0	6.1	
Xentrall	2668	Server Operating Systems	In Progress						5.0	3.8	
Resources	2670	Personal Budgets & Direct Payments	Draft						7.0	0.9	
Xentrall	2672	Firewalls	In Progress						6.0	6.2	
Children's and Adult Services	2673	Referral & Assessment - Adults	Not Started						12.0	9.3	
Xentrall	2674	Payroll & Absence Recording	In Progress						26.0	25.4	
Economic Growth & Neighbourhood Services	2676	Environmental Health	Complete	Full Assurance	0	0	0	0	6.0		-2.6
Economic Growth & Neighbourhood Services	2677	Enforcement	Not Started						7.0	6.6	
Children's and Adult Services	2679	Youth Offending and Prevention	Not Started						8.0	8.0	
Children's and Adult Services	2680	Early Years, Children's Centres & Childcare	In Progress						8.0	1.3	
Corporate	2700	Declaration of Interests/Gifts & Hospitality	In Progress						20.0	12.8	
Children's and Adult Services	2701	Adult Education	Complete	Full Assurance	1	2	0	0	15.0		-13.8
Xentrall	2702	Bank Reconciliation	Complete	Full Assurance	0	0	0	0	12.0		3.2
< None >	2703	Catering & Cleaning	Complete	Substantial Assurance	0	2	0	0	20.0		-14.5

Children's and Adult Services	2704	Residential Childrens Homes	Complete	Full Assurance	0	0	0	0	10.0		-15.6
Corporate	2705	Data Protection	In Progress						10.0	10.0	
Children's and Adult Services	2706	Day Centres, Residential & Supported Living	In Progress						30.0	7.6	
Economic Growth & Neighbourhood Services	2707	Eastbourne Sports Complex	Complete	Moderate Assurance	2	8	0	0	5.0		-10.2
Children's and Adult Services	2708	Education Improvement Service	Not Started						15.0	0.0	
Resources	2709	Employee Benefits	Complete	Full Assurance	0	0	0	0	10.0		-10.7
Resources	2710	Employee Therapy Services	In Progress						7.0	6.7	
Children's and Adult Services	2711	Fuel Poverty Reduction	Not Started						7.0	0.0	
Economic Growth & Neighbourhood Services	2712	Highways Maintenance Management	Not Started						10.0	9.8	
Economic Growth & Neighbourhood Services	2713	Horticultural Services & Allotments	In Progress						15.0	0.8	
Economic Growth & Neighbourhood Services	2714	Housing Building Maintenance	Complete	Substantial Assurance	4	4	0	0	25.0		0.8
Economic Growth & Neighbourhood Services	2715	Housing Management	Ready to Start						20.0	11.2	
Economic Growth & Neighbourhood Services	2716	Housing Rents	Under Review						15.0	1.2	
Economic Growth & Neighbourhood Services	2717	Licensing	Complete	Substantial Assurance	1	4	0	0	30.0		16.5
Corporate	2718	Information Management	In Progress						10.0	10.0	
Law & Governance	2719	Mayor's Charity Fund	Under Review						2.0	0.5	
Corporate	2720	Performance Management Framework	Not Started						15.0	15.0	
Corporate	2721	Anti-Fraud Management	In Progress						35.0	32.3	
Corporate	2722	Business Continuity & Emergency Planning	Not Started						10.0	10.0	
Corporate	2723	Council Plans	In Progress						5.0	5.0	
Corporate	2724	Financial Management	In Progress						5.0	5.0	

Economic Growth & Neighbourhood Services	2725	Registration & Bereavement Services	Complete	Full Assurance	1	1	0	0	15.0		6.2
Children's and Adult Services	2726	Safeguarding Children	In Progress						15.0	9.7	
Corporate	2727	Scheme of Delegation	Cancelled						15.0	15.0	
Xentrall	2728	Software Controls	Complete	Full Assurance	0	0	0	0	10.0		0.4
SBC Only	2729	Stockton Collections	Complete	0	0	0	0	0	5.0		-1.9
SBC Only	2730	Tees Valley Music Service	Complete	0	0	1	0	0	10.0		-2.2
Economic Growth & Neighbourhood Services	2731	Traffic Management & Road Safety	Complete	Full Assurance	0	1	0	0	15.0		-13.6
Children's and Adult Services	2732	Troubled Families Initiative	In Progress						20.0	3.8	
Contingency	2733	Advice and Guidance	Complete	0	0	0	0	0	50.0		37.0
Contingency	2734	Audit Liaison and Planning	Complete	0	0	0	0	0	20.0		-2.5
Contingency	2736	Continuous Monitoring	Complete	0	0	0	0	0	200.0		41.3
Contingency	2737	Grants Contingency 2019	Complete	Full Assurance	0	0	0	0	30.0		-0.9
SBC Only	2738	SBC Schools - IR35 Self Assessment	In Progress						0.0	0.0	
Schools	2739	DBC Schools - IR35 Self Assessment	In Progress						0.0	0.0	
< None >	2740	Schools - High Clarence Primary	Not Started						0.0	0.0	
SBC Only	2741	Globe Project Assurance	Complete	0	0	0	0	0	0.0		-15.1
Contingency	2742	Risk Management	Complete	0	0	0	0	0	35.0		22.6
Contingency	2743	Procurement/Contract Management	Complete	0	0	0	0	0	62.0		58.7
Contingency	2744	ICT Individual Systems	Complete	0	0	0	0	0	66.0		47.8
< None >	2745	Schools - Harrowgate Hill Primary	Complete	Full Assurance	1	1	0	0	0.0		-11.1
SBC Only	2746	SBC Library Lost Property	Draft						0.0	0.0	