

Audit Committee Agenda



**9.30 am Wednesday, 18 November 2020
Via Microsoft Teams**

In accordance with Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020, this meeting will be held on a virtual basis. Members of the Public can view a live stream of the meeting at:

<https://www.darlington.gov.uk/livemeetings>

Members of the public wanting to raise issues/make representations at the meeting can do so by emailing Allison.hill@darlington.go.uk 24 hours before the meeting begins.

1. Introductions/Attendance at Meeting
2. Declarations of Interest
3. Audit of Accounts 2019/20 –
Report of the Managing Director
(Pages 1 - 156)
4. Annual Governance Statement –
Verbal update by the Finance Manager
(Pages 157 - 194)

A handwritten signature in black ink, appearing to read "Luke Swinhoe".

**Luke Swinhoe
Assistant Director Law and Governance**

Tuesday, 10 November 2020

**Town Hall
Darlington.**

Membership

Councillors Durham, Baldwin, Crudass, Lee, 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
18 NOVEMBER 2020**

ITEM NO

AUDIT OF ACCOUNTS 2019-20

SUMMARY REPORT

Purpose of Report

1. To present a report by the Council's external auditors, Ernst and Young LLP (EY), on the audit for the year ended 31 March 2020.

Summary

2. In accordance with the Accounts and Audit Regulations 2015, updated for (Coronavirus) (Amendment) regulations 2020 all Local Authorities are required to produce the draft annual Statement of Accounts by 31st August 2020 and an audited set published by 30 November 2020. These regulations have temporarily relaxed the previous deadlines for producing the draft accounts and completion of final audited accounts.
3. The external auditors are required by the Public Sector Audit Appointments Ltd (PSAA) to report to Members issues arising from the accounts audit. The Audit Results Report details the significant findings from the audit by EY following their audit approach outlined in their audit plan presented to this committee in September 2020 (previously distributed).
4. Members are specifically required to consider items that are classified as unadjusted audit differences, which officers propose not to adjust in the accounts. There are 2 such unadjusted audit differences and they are explained below:
 - (a) Assets Held For Sale – this is an asset that the Council has previously had up for sale but due to the current situation with Covid-19 there is no market interest and therefore should have been transferred back to Property, Plant and Equipment – This has not been amended as it is a Balance Sheet categorisation error and would not change the Net Assets or the financial position of the Council.
 - (b) Private Finance Initiative (PFI) – The PFI was for the Education Village and Harrowgate Hill Primary School and has been in operation for a number of years. The Accounting model used was procured at the start of the PFI in 2005 and although practices have moved on it is still considered to produce acceptable results. – As is stated in the Audit Results Report the overstatement has reached its perceived maximum and this will now continue to fall until the end of the PFI scheme in 2030 so management have chosen not to adjust as it is not material.

5. EY are also required to report to management and the Audit Committee any significant deficiencies in internal control identified during their audit. In this regard, EY have not raised any significant matters.
6. EY are expected to:
 - Give an unqualified opinion on the Council's 2019/20 accounts;
 - Conclude that the Council have put in place proper arrangements to secure value for money in its use of resources.
 - Confirm that the Council's Annual Governance Statement is not misleading or inconsistent with other information known to them.
7. EY's report is attached at **Annex 1** and will be presented by a representative from EY. However, it should be noted that whilst the external auditors have substantially completed their work at the time of writing the audit is not complete. EY will give an update at the meeting.

Outcome of Consultation

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

Recommendation

9. It is recommended that:-
 - a) The Auditor's Audit Results Report on the Council's 2019-20 financial statements be noted.
 - b) Members note the Letter of Representation in Appendix B of the Audit Results Report
 - c) The Audit Committee agrees not to amend the unadjusted audit differences as they are not material.
 - d) The Audit Committee is requested to approve the attached IFRS compliant Statement of Accounts at **Annex 2** for the 2019-20 financial year.

Reasons

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

Paul Wildsmith
Managing Director

Background Papers

- (i) Council's accounts 2019-20
- (ii) EY ISA 260

Peter Carrick: Extension 5401

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

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**Darlington Borough
Council**
Audit results report
Year ended 31 March 2020

15 October 2020

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Private and Confidential

15 October 2020

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our conclusions in relation to the audit of Darlington Borough Council ("the Council") for 2019/20.

We have substantially completed our audit of the council for the year ended 31 March 2020. We expect to issue an unqualified audit opinion on the financial statements in the form set out in Section 3, by the accounts publication date of 30 November 2020. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

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

Yours faithfully

Helen Henshaw

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01

Executive Summary

Scope update

In our audit planning report, which was circulated to councillors on 30 April 2020 and tabled at the 16 September 2020 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- ▶ **Valuation of Property Plant and Equipment** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
- ▶ **Disclosures on Going Concern** - Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- ▶ **Adoption of IFRS16** - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Changes in materiality

We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

The basis of our assessment has remained consistent with the planning stage at 2% of gross operating expenditure. At year end we updated our planning materiality assessment using the draft financial statements. Based on our materiality measure of 2% of gross expenditure we have updated our overall materiality assessment to £4.6m (Audit Planning Report – £5.4m). This results in updated performance materiality, at 75% of overall materiality, of £3.5m and an updated threshold for reporting misstatements of £0.232m.

Changes in audit team

Helen Henshaw has taken over responsibility from Nicola Wright as the Key Audit Partner for the external audit. Michael Mason has also taken over responsibility from Vusi Maseko as the Audit Manager. There have been no further changes to the team that was reported to you as part of our Audit Planning Report.



Executive Summary

Status of the audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements. However until work is complete, further amendments may arise:

- Receipt of signed management representation letter
- Completion of subsequent events review procedures
- Final Manager and Partner review of audit working papers
- Final agreement of the trial balance to the updated accounts
- Completion of legal expense testing
- Our going concern consultation process is still ongoing and we await a response from our internal team

Audit differences

We identified two unadjusted audit differences in the draft financial statements which management have chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £1.68m. We agree with management's assessment that the impact is not material. More detail of this audit difference can be found in Section 4 of this report.

There were some changes made to the draft financial statements and we summarise these in Section 4 of this report.

Areas of audit focus

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

Audit findings and conclusions: Significant risk - Risk of fraud in revenue and expenditure recognition

- Our work in this area has not identified any material misstatement arising from fraud in revenue and expenditure recognition.

Audit findings and conclusions: Significant risk - Misstatements due to fraud and error

- Our work in this area has not identified any material misstatement arising from fraud or error.



Executive Summary

Areas of audit focus

Audit findings and conclusions: Inherent risk - Valuation of land and buildings and investment properties

- Our audit procedures did not identify any material misstatements arising from the valuation of land and buildings or investment properties.

Audit findings and conclusions: Inherent risk - Pension liability valuation

- Our audit procedures did not identify any material misstatements arising from the pension liability valuation.

Audit findings and conclusions: Inherent risk - Group accounts

- Our audit procedures did not identify any material misstatements arising from group accounting.

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

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

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



Executive Summary

Control observations

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

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified one significant risk related to the Councils financial sustainability, and we have set out the work identified in section 5 of this report. We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

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

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We have no matters to report as a result of this work. We will submit the Assurance Statement to the NAO as required.

We have no other matters to report.

Independence

We confirm that we are independent from the Council and have reported all matters as part of our Audit Planning report.

Please refer to Section 8 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

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

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

What judgements are we focused on?

The main judgements were focused on were:

- Recognition of grants;
- Improper capitalisation of revenue expenditure; and
- Omission of expenditure in the financial statements

What did we do?

- We tested a samples of capital grants and non-capital grants, and confirmed that they were recognised in accordance with agreed terms and conditions;
- We tested a sample of capital additions and confirmed they met the capitalisation criteria set in the accounting standards;
- Reviewed minutes of Council and Cabinet meetings, as well as attending Audit Committees, to identify any potential accruals or provisions which may have been omitted from the financial statements; and
- We reviewed a sample of transactions recorded in the ledger and payments made from the bank account post year-end and confirmed that the associated income and expenditure has been recorded in the correct period.

What are our conclusions?

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

However, our work performed on the HRA statement identified a number of errors which cumulatively were above our SAD limit. This resulted in expenditure being overstated by £413k and income being overstated by £406k. Further detail is included in section 4 of the report.





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

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

What judgements are we focused on?

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

What did we do?

- We identified fraud risks during the planning stage of our audit;
- We developed our understanding of the oversight given by those charged with governance over management's processes over fraud;
- We considered the effectiveness of management's controls designed to address the risk of fraud;
- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- We reviewed accounting estimates for evidence of management bias (as noted above relating to revenue and expenditure recognition); and
- We evaluated the business rationale for any significant unusual transactions.

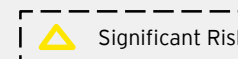
What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

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

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

We did not identify any issues regarding the appropriateness of journal entries recorded in the general ledger and other adjustments made to the financial statements from our testing performed.





Areas of Audit Focus

Other areas of audit focus



Valuation of land, buildings and investment properties

In our Audit Planning Report, we highlighted the valuation of land, buildings and investment properties as an inherent risk. The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent a significant balance in the Authority's accounts, and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Update - Covid-19 related constraints on property valuation: The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on the markets might cause a valuer to conclude that there is material uncertainty. The valuation reports received by the Council from their valuers included a statement on material uncertainties in relation to their valuation. Our work performed did not identify any issues with the valuation of land and buildings or investment property included in the Council's accounts.

We completed the following work on the valuations of land, buildings and investment properties:

- We have considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- We have sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- We have considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the CIPFA Code for PPE, and annually for IP;
- We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- We have reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- We have considered changes to useful economic lives as a result of the most recent valuation; and
- We have tested accounting entries to ensure they have been correctly processed in the financial statements.

We identified differences in our valuations work relating to two assets (Drinkfield Civic Amenity Site, and Central House Annexe). The valuation of the building element of the Drinkfield Amenity was not included within the fixed asset register or the financial statements resulting in an understatement of £492k. The valuation of Central House Annexe had arithmetic errors, which amounted to an overstatement of £142k. Although this was below our reporting threshold, management chose to correct this and we have therefore included it in our report. We also noted a disclosure issue in the note of the accounts whereby PFI assets had been understated by £252k.

We noted an overstatement of £1.4m relating to the valuation of the Railway Museum within Note 18, Heritage Assets. The overstatement was due to an out of date valuation report being used. We have no other matters to bring to your attention regarding the valuation of land and buildings and investment properties.



Areas of Audit Focus

Other areas of audit focus



Pension Liability Valuation

In our Audit Planning Report, we highlighted that the Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Durham County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020, this totalled £186.74m. The information disclosed is based on the IAS19 report issued to the Council by the actuary.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs 500 and 540 requires us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

- We have liaised with the auditors of the Durham County Council Pension Fund to obtain assurances over the information supplied to the actuary in relation to Darlington Borough Council;
- We have assessed the work of the Pension Fund actuary (Aon) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by PSAA for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- We have reviewed and tested the accounting entries and disclosures made within the councils financial statements in relation to IAS19.

We have no other matters to bring to your attention relating to the valuation of the pension liability.



Areas of Audit Focus

Other areas of audit focus



Group Accounting

In our Audit Planning Report, we highlighted that Group Accounts was an inherent risk. To assess if group accounting is required, the CIPFA Code requires an assessment of arrangements on a qualitative basis first, and then on a quantitative basis. Management should revisit the Group assessment annually, based on the most up-to-date information, to determine if the Group financial statements require additional entities to be incorporated within the consolidation.

We have:

- Reviewed the Council's Group boundary assessment to ensure that it is complete and all Group entities have been identified;
- Reviewed the Council's assessment of qualitative factors such as whether the Council is exposed to any commercial risk through its involvement with the potential Group entities, in order to ensure the assessment is appropriate; and
- Tested the Council's quantitative assessment by agreeing all values included in the assessment to audited financial statements for each of the potential Group entities.

At the date of writing this report, we have no other matters to bring to your attention relating to group accounts.



Areas of Audit Focus

Other areas of audit focus



Going Concern

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

We identified Going Concern as an inherent risk in the Audit Plan following Covid-19. Financial plans for 2020/21 and beyond will need revision for Covid-19. We consider the unpredictability of the current environment to give rise to a risk that the Council will not prepare their financial statements on the appropriate basis.

We requested that the Council produce a cash flow forecast extending out until at least November 2021. We reviewed the Council's updated projection as part of our work, including the agreement of some of the projections to external support and challenge of key assumptions made. Having completed our review we agreed with the Council's conclusion that it should have sufficient liquidity to continue to operate as a going concern for at least 12 months after the date of our audit report, as positive cash flows were forecasted throughout the period. We also noted that no additional borrowing above the current level at the end of 2019/20 was required throughout the forecasted period. We have also reviewed the Council's general fund balance to ensure the Council have sufficient reserves to cover the projected deficit as a result of Covid-19.

We agree with management's assessment that the financial statements should be prepared on a going concern basis.



03 Audit Report



Audit Report

Draft audit report

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

Opinion

We have audited the financial statements of Darlington Borough Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement;
- Authority and Group Comprehensive Income and Expenditure Statement;
- Authority and Group Balance Sheet;
- Authority and Group Cash Flow Statement and the related notes 1 to 41;
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 7; and
- Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Darlington Borough Council and Group as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

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

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



Audit Report

Draft audit report

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report set out on pages 1 to 14, other than the financial statements and our auditor's report thereon. The Assistant Director, Resources' is responsible for the other information.

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

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

We have nothing to report in this regard.

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

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, Darlington Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.



Audit Report

Draft audit report

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

Responsibility of the Assistant Director, Resources

As explained more fully in the Statement of the Assistant Director, Resources' Responsibilities set out on pages 15, the Assistant Director, Resources' is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Audit Report

Draft audit report

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether Darlington Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

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

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

Certificate

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

Use of our report

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

Helen Henshaw (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Birmingham



04 Audit Differences





Audit Differences

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

Summary of adjusted differences

We highlight the following misstatements greater than £231,726 which have been identified during the course of our audit

The following differences have been corrected by management:

Note 3b - Analysis of income and expenditure: During our audit work we noted misclassifications of expenditure in note 3b ‘Analysis of income and expenditure’ totalling £6.1m.

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Note 16 - Property, Plant and Equipment: We identified differences in our valuations work relating to two assets. For one asset, the building element of the valuation was not included within the fixed asset register or the financial statements resulting in an understatement of £492k. The other asset had arithmetic errors included within the valuation, which amounted to an overstatement of £142k. Although this was below our reporting threshold, management chose to correct this and we have therefore included it in our audit results report. We also noted a disclosure issue in the note of the accounts whereby PFI assets had been understated by £252k.

Note 18 - Heritage Assets: We noted an overstatement of £1.4m relating to the valuation of the Railway Museum within Note 18, Heritage Assets. The overstatement was due to an out of date valuation report being used.

Note 35 - Related Parties: We identified a difference within in the related parties note whereby the figure used had not been updated from prior year.

Housing Revenue Account (HRA) Statement: We identified errors within the HRA statement whereby expenditure was overstated by £413k and income was overstated by £406k. This was due to codes being included twice in the workings.



Audit Differences

Summary of Unadjusted differences

The following differences have not been corrected by management:

Balance Sheet - Assets Held For Sale: We understand that the asset held for sale balance relates to a single asset, and this asset does not meet the recognition criteria of an asset held for sale per CIPFA code 4.9.2.14, as it was not being actively marketed as at 31 March 2020. It was also deemed that a sale within 12 months was highly unlikely as there was a lack of retailer interest due to the current economic affect of covid-19. We agree with management's assessment that the impact is not material.

Note 32 - Private Finance Imitative (PFI): During our audit work we liaised with our EY PFI specialist. Our specialist concluded that the PFI Accounting Model used by the Council was not consistent with usual custom and practice that has been adopted across the sector. Based on our experts calculations, this resulted in a £1.4m overstatement of the PFI liability for the year ended 31m March 2020. The overstatement has been increasing over the previous years, and is currently at its maximum, and will fall in future years. Based on this, management have chosen not to adjust for this audit difference. We agree with management's assessment that the impact is not material.

Cash Flow Statement: Per para 3.4.2.72 of CIPFA code, a LA shall consider presenting a note on operating activities if it is relevant to the understanding of the cashflows. We note that this is not included in the Council's accounts, however on discussion with management understand that this will be included next year. This is in accordance with our recommendation. As it is not a requirement of the CIPFA Code, management do not have to adjust the accounts this year.



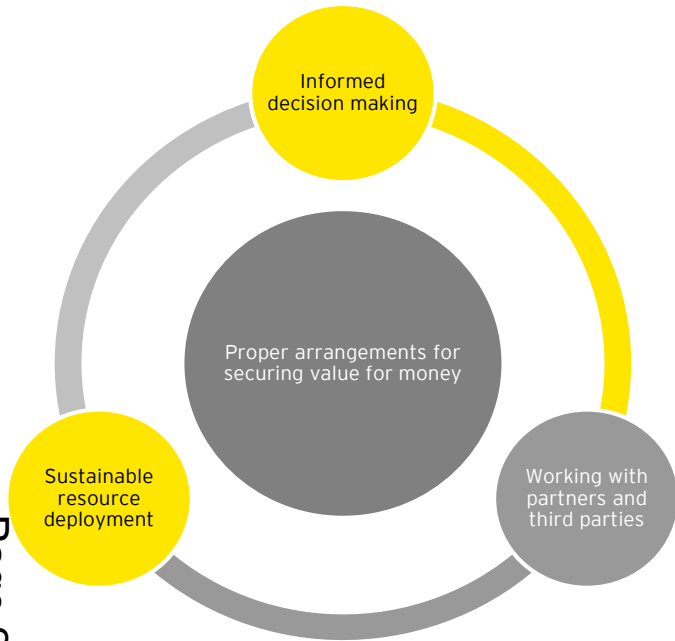
05

Value for Money



Value for Money

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Background

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

For 2019/20 this is based on the overall evaluation criterion:

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

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

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

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

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Covid-19 has had a significant financial impact on the Council. The Council will need to update and review medium term financial plans to reflect the impact of Covid-19 and ensure actions plans are agreed to ensure financial sustainability is maintained.

Overall conclusion

We identified one significant risk around these arrangements as part of our audit planning work. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Value for Money Risks

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

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

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

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

What is the significant value for money risk?

What arrangements did the risk affect?

What are our findings?

Financial Sustainability

The Council continues to operate in a challenging financial environment. The main risks to the Council’s finances are reductions in central government funding, increased reliance on locally raised taxes, increased budget pressures and increasing demands for services.

In February 2020, the Council published its Medium Term Financial Plan (MTFP) for 2020/21 to 2023/24.

The plan includes £10.3m of net pressures, which includes delivery of savings totalling £12.9m, over the duration of the plan.

There is therefore significant pressure on the Council’s finances over the coming years. We note that the above plan does not incorporate the potential financial impact of Covid-19, due to the timing of its production.

The Council has successfully managed its financial resources during 2019/20, such that they achieved a surplus on provision of services of £17.691 million at the year end. Also, a small contribution (after accounting adjustments) was made to the general fund balance giving a closing balance of £18.368 million. This is considerably above the current risk assessed minimum working balance of £4.350 million.

The Council has maintained a positive cash balance throughout the year and has a significant closing year end balance of £16.263 million.

The affect of covid-19 on the Council’s 2019/20 accounts was limited with the lockdown being imposed in the last week of the year (23rd March 2020). However, it is clear that the pandemic will have an adverse impact on the council’s finances post 2020/21. We understand that work to establish the overall impact on the council is continuing and a revised Medium-Term Financial Plan (MTFP) is due to be presented to Cabinet in December 20. In the current MTFP the Council’s strategy has been to balance the budget going forward with the use of reserves and we understand that this will continue.

We have reviewed information, such as Central Government guidance on cost pressures, to assess the completeness of the assessment for the remaining period. No areas have been identified that management have not taken into account.

We have also reviewed and tested management’s detailed cash flow forecast up to 30 November 2021. These forecasts demonstrate the Council will maintain a positive cash balance throughout 2020/21 and we are satisfied the Council have arrangements in place to monitor this going forwards.

As a result of the procedures performed we are content that the Council has appropriate arrangements in place to manage its financial resources.



06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts and published with the financial statements is consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

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

We have no issues to raise.

Other powers and duties

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

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



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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

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

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

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention/details of issues noted.



08

Independence

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated April 2020.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 28 October 2020.

We confirm we have not undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd.

Page 36 As part of our reporting on our independence, we set out below a summary of our fees for the year ended 31 March 2020.

Description	Planned Fee 2019/20 £	Final Fee 2019/20 £
Audit Fee - Code work	71,813	71,813
Scale fee variation	TBC**	TBC**
Total Audit	71,813	TBC
Non-audit work - Housing Benefit Subsidy Claim	10,500	TBC
Non-audit work - Teachers' pension certification work	5,500	TBC
Non-audit work - Homes England grant	4,000	4,000
Non-audit work - Pooling of capital receipts	TBC*	TBC
Total other non-audit services	TBC	TBC
Total fees	TBC	TBC

* Pooling of capital receipts fee still to be agreed for 2019/20.

** The final audit fee for 2019/20 will be subject to additional fees for the work carried out in response to significant risks and change of scope, specifically the work identified in this report covering:

- The VFM significant risk identified;
- Additional procedures required in respect of the impact of Covid-19, particularly in respect of going concern considerations and the impact on asset valuations;
- Additional procedures required as a result of errors found in the draft financial statements presented for audit.

We will discuss these fees with management in the first instance, before agreeing them with you and requesting approval from Public Sector Audit Appointments (PSAA).

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services
 - Remuneration advisory services
 - Internal audit services
 - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf






09

Appendices

Appendix A

Required communications with the Audit Committee

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

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report - April 2020	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report - April 2020	
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report - October 2020	

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report - October 2020
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit Results Report - October 2020
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report - October 2020
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit Results Report - October 2020

Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	Audit Results Report - October 2020
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report - April 2020</p> <p>Audit Results Report - October 2020</p>

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report - October 2020

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit Planning Report - April 2020 Audit Results Report - October 2020
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit Results Report - October 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report - October 2020
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - October 2020
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Planning Report - April 2020 Audit Results Report - October 2020
Certification work	<ul style="list-style-type: none"> ▶ Summary of certification work 	Certification Reports

Management representation letter

Management Rep Letter

Ernst and Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Dear Sirs

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Darlington Borough Council ("the Group and Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Darlington Borough Council as of 31 March 2020 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Group and Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

Management representation letter

Management Rep Letter

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;

- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic.

Management representation letter

Management Rep Letter

3. We have made available to you all minutes of the meetings of the Group and the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date]
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From 31 July 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the consolidated and council financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

Management representation letter

Management Rep Letter

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the narrative report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Reserves

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

I. Use of the Work of a Specialist

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

J. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,



Elizabeth Davison, Chief Finance Officer

Councillor Lee, Chair of the Audit Committee

Accounting and regulatory update

Future accounting developments



Since the date of our last report to the Audit Committee, there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Darlington 
IFRS 16	<ul style="list-style-type: none"> ▶ The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. 	<ul style="list-style-type: none"> ▶ The Authority need to ensure that all lease arrangements entered into are identified and quantified prior to the new implementation date and processes are in place to embed the requirements of the new accounting standard going forward.

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Regulatory update

Since the date of our last report to the Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Darlington 
Code of Audit Practice 2020	<ul style="list-style-type: none"> ▶ The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21. 	<ul style="list-style-type: none"> ▶ The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. ▶ Further updates will be provided when possible.

Reflections from the Redmond Review

Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

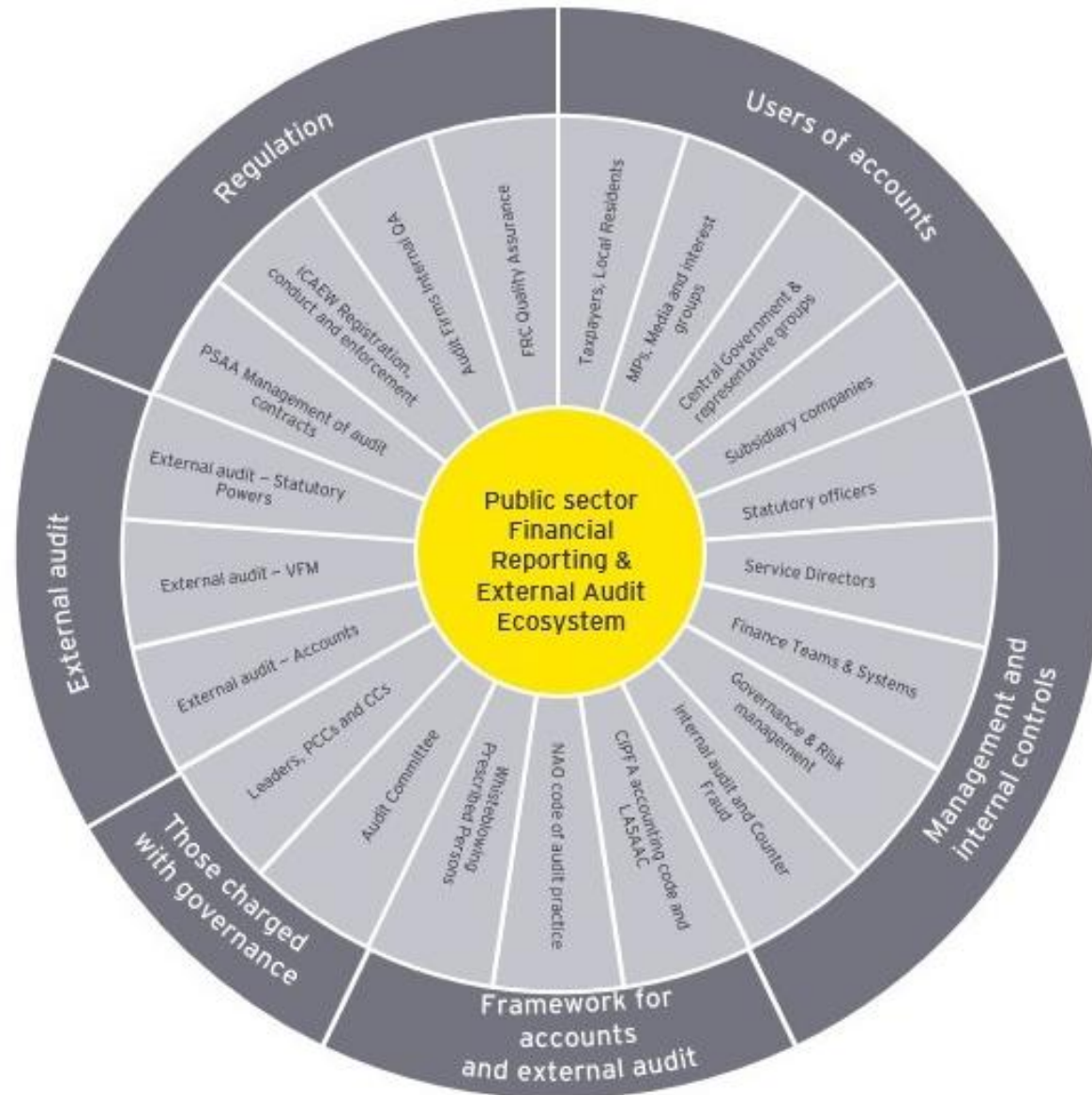
Published on the 8th September 2020, Sir Tony Redmond's findings and recommendations from his independent review provides a significant opportunity to shape the future sustainability of local government financial reporting and auditing. We believe this will help ensure audit continues to meet the evolving needs of local authorities, the public, and the public interest.

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Guiding principles for reform

We believe reforms should be guided by the following principles:

- Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit.
- The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity, risks and financial resilience pressures we have seen facing the public sector pre and post Covid-19.
- There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole.



Reflections from the Redmond Review (continued)

Taking our guiding principles, we broadly welcome the Redmond review and proposals, in particular:

Quality of financial reporting and external audit

- The recognition that all stakeholders in the ecosystem have a role to play to improve accountability, transparency and sustainability. This includes improving the effectiveness of Audit Committees, strengthening the training skills, capacity capability and attractiveness of the public sector finance and audit professions.
- His conclusion that the current procurement and fee structure does not support sustainable audit quality. We have provided you with our perspectives on how baseline audit fees need to change to take account of your risk profile, complexity as well as the regulatory and professional context which drive our audits.

Reforming the public sector financial reporting and external audit ecosystem

- Establishing the Office for Local Audit Regulation (OLAR), which provides a “system leader” and will bring clarity to the existing framework for local authority audit.
- The importance of MHCLG establishing a liaison committee of all key stakeholders to oversee reforms. To begin with MHCLG should take urgent action to implement primary legislation to establish OLAR, revise the timetable for financial reporting and revisit the procurement and fee structure for public sector audit.

Multidisciplinary audit firm model

- The importance of the auditors work to critically assess the financial resilience and viability of public sector bodies and his proposals on how this assessment could be enhanced within the NAOs code of audit practice.

Safeguarding professional accounting and auditing standards

- The need for CIPFA/LASAAC to revisit the accounting code and introduce summarised accounts. We agree that there is a need for more proportionality in the Code which also sets out the expectations of practitioners and auditors and how this could be applied in areas such as pensions and asset valuations. However, we believe that any future proposals on the accounting code should not create a two-tier system.

Reflections from the Redmond Review (continued)

What are we doing in the meantime?

1. Planning for a 30 September financial reporting target date for 2020/2021 accounts, integrated with our NHS work.
2. Implementing the new NAO code and changes to our VFM conclusion work and reporting for 2020/2021 audits. We will also work with the NAO and other audit suppliers on any refinements to how auditors assess financial resilience.
3. Continuing to engage with and influence MHCLG, NAO, PSAA CIPFA/LASAAC, FRC and other key stakeholders on the actions required to implement the Redmond proposals as swiftly as possible and how these effectively align to the broader package of audit reforms which BIES will consult on later this year.

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ED None

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DARLINGTON BOROUGH COUNCIL

Statement of Accounts

2019/2020

Statement of Accounts 2019/20 of Darlington Borough Council

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Narrative Report of Darlington Borough Council

Chief Finance Officer Report

The Council has faced significant challenges over the last decade following the economic downturn and reduction in public sector spending. To date, the Council has been successful in responding to these challenges but there are still financial pressures to be faced, particularly in respect of a growing elderly population and pressure in the children's social care sector. We therefore must continue to be creative and innovative in ways of working and press ahead with every effort in our priority of growing the economy.

The Council undertook a significant consultation exercise in 2016 following an in depth and detailed review of all services which resulted in the agreement of a Core Offer budget which allowed for a small futures fund allocated to discretionary services. Furthermore, in subsequent MTFP's following good progress in achieving savings along with strong cost management and innovative treasury initiatives Members agreed to use unallocated balances of £4.7m to invest in five areas which hold great value to our community, they were;

- (a) Community Safety
- (b) Maintain an attractive street scene environment
- (c) Maintaining a vibrant town centre
- (d) Developing an attractive visitor economy
- (e) Neighbourhood renewal

Whilst the Core Offer is extremely challenging especially given the further pressures that have arisen, particularly in children's social care, the Council can still deliver the agreed plan and allocate an additional £1.8m to bolster the Futures Fund themes but needs to continue to pursue with vigour our 3 conditions of Building Strong Communities, Spending Wisely and Growing the Economy.

The Covid-19 pandemic has had a considerable impact on the Council. The Government's lockdown which commenced on the 23 March 2020, has meant that many of the businesses in Darlington have been forced to close during the period, significantly impacting on our communities and the local economy, which in turn will impact on the Council with additional cost and income reduction pressures.

Given the pandemic only started to take effect in the last two weeks of March the impact on the 2019/20 outturn position was limited and containable. The true scale of its impact on the Council's finances will be felt during 2020/21 and beyond and the Council is expecting substantial pressures in three main areas:

- Increased expenditure in particular supporting care providers to help the NHS by reducing demand for beds and to support our vulnerable adults and children, as well as the cost of personal protective equipment (PPE), supporting the Community Hub services and increased costs due to providing socially distanced services such as waste management
- Reduced Council tax and Business rates income given the impact on the local economy
- Direct income losses from the closure of our Culture and leisure venues along with car parking income, registrars and planning fees

At the time of writing the Government has provide emergency Covid-19 funding of £6.2m however this will not cover the anticipated pressure. The Council will constantly review the financial position and reassess if necessary its Medium Term Financial Plan in recognition of the impact of the pandemic with the Council's strategic objectives at the forefront of any changes going forward

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



Elizabeth Davison

Assistant Director - Resources
Section 151 Officer
Darlington Borough Council

Narrative Report of Darlington Borough Council

1 An Introduction to Darlington

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

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

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

2 Darlington - About the Borough

Population - As of 2018, Darlington's population is estimated to be 106,803: a significant increase from 97,900 in 2001.

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

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

- 65.2% are owner-occupiers
- 15.7% live in social housing

However, 8.4% of the population moves to or leaves Darlington every year.

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

Income - Darlington residents, on average, are estimated to earn above average for the North East, with a median gross annual earnings calculated to be £27,690.

Gross disposable Income (GDHI) per head, which takes into account all forms of incomes not just earnings, in Darlington is estimated to be £15,953 per year, which is above the regional average.

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

In terms of employment concentrations against national and regional averages Darlington has comparative advantage in a number of sectors, such as logistics, information & communication and financial & insurance services.

Narrative Report of Darlington Borough Council

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

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

Your Council - Darlington Borough Council has a gross budget of over £220m and employs around 2,100 staff in full time and part time contracts (excluding schools). Below is the make up of the workforce of the Council:

Headcount

	Female	Male	Total
Full Time	585	543	1,128
Part Time	754	224	978
Total	1,339	767	2,106

This equates to 1,479.06 FTEs.

Political Structure - The Council is made up of 50 Councillors for 20 wards, with the political make up as follows:

- Conservative 22
- Labour 19
- Independent Group 3
- Liberal Democrats 3
- Green Party 2
- independent 1

At the local elections on 2 May 2019, the Council became a Conservative administration and a new leader was elected who in turn appointed a new Cabinet to perform the executive functions.

3 Council's Performance

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

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

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

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

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

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

Narrative Report of Darlington Borough Council

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

1. Building Strong Communities

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

2. Spending Every Pound Wisely

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

3. Growing the Economy

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

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

In terms of giving Children the Best Start in Life, good progress has continued to be made over the past year: Darlington scores above the North East and statistical neighbour averages for Progress 8 and above all comparator groups for Attainment 8 at Key Stage 4, and above regional and statistical neighbour averages for the percentage of 19 year olds achieving a Level 3 qualification. However, there are still areas where further work is needed: at all ages there is a significant inequality gap in attainment, with a clear negative correlation discernable at school level between pupil performance and the proportion of pupils classed as disadvantaged. Data on child obesity also shows that the proportion of children in Darlington measured as overweight (including obese) has been increasing at a faster rate than elsewhere, and is now above the England and regional averages.

In addition, in June 2019 senior leaders, received a letter informing them of DFE ceasing formal involvement with Darlington Council following the Ofsted judgement in May 2018 of 'requires improvement to be good. The DFE recognised the 'strong and committed leadership, and a clear vision for delivering high quality services'. The DFE also noted evidence 'not only that the council have embedded improvements made during their intervention, but also that appropriate steps are being made to identify and address further areas of improvement'. An improvement plan is in place.

Regarding the economy, on many indices Darlington continues to outperform regional and national growth trends. Average Gross Disposable Income per head rose slightly in 2017 and GVA per head continues to be significantly above the regional average. This good performance, however, is not always felt by residents, with workplace and residence-based earnings figures both showing significant numbers of people earning low wages and a slightly higher than average proportion of jobs part-time. Unemployment is also above the national and regional average. The economic impacts on the COVID-19 pandemic are likely to be very high, and have significant effects on local employment prospects and living standards, particularly for young people, women and other minority groups.

Narrative Report of Darlington Borough Council

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

Regarding a safe and caring community, the number of reported crimes increased in 2019 and Darlington remains the local authority with the highest number of reported crimes per capita in the North East. This follows however, a concerted ongoing effort by Durham Constabulary to increase the proportion of residents who report crimes, and a change to their reporting processes to ensure all reports are appropriately recorded. The biggest increases in reports have been in drug offences and violence against the person. Big reductions however have been recorded in theft offences and criminal damage and arson, which have coincided with the introduction of a new Council community safety team.

In terms of More People Caring for Our Environment, whilst the proportion of household waste sent for recycling fell slightly in 2018/19, Darlington remains above the regional average for this metric and the Council has contributed to significant improvements in recycling rates over the medium-term (up 20% since 2013/14, with an equivalent reduction in refuse). Volunteers have also continued to contribute significantly to the borough remaining clean and green, with street champions continuing to be very active and Darlington Cares - a local organisation comprised of significant local employers in order to coordinate their corporate social responsibility activities - doubled the number of volunteer hours last year dedicated by members to local litter picks and park improvements, including via a 'Parks Auction' initiative which was shortlisted for an LGC award.

In terms of encouraging residents to be active and involved, data relating to the proportion of adults who are physically active in Darlington appears to have improved over the past year, surpassing the North East average, possibly reflecting significant work undertaken by council staff to support residents to be more active, including the Council's Move More team and sustainable transport service. More broadly, in terms of widening general participation in civic life, significant work continues to improve the local library service which will seek to increase membership and usage, and a further increase in visitors to the local Head of Steam museum was also recorded over the last year.

In respect of Enough Support When Needed, the council's reablement service continues to support individuals to maximise their independence. This is evidenced by the increase in the number of individuals benefitting from the service. For example, in the last quarter, 325 individuals have completed a reablement package, resulting in 221 individuals having no on-going care needs. In the recently published regional figures for 2018-19, Darlington continues to be one of the top performing areas in reducing numbers of both younger and older adults, admitted on a permanent basis to residential or nursing care. Maximising independence and supporting people at home, where possible, remains our priority.

Ensuring that Darlington residents are healthy and independent, out of all the One Darlington outcomes, will require the most sustained and coordinated effort by agencies and residents across the borough. The determinants of health are wide-ranging and complex: our diet, upbringing, education, household income and even where in the borough we live, are just a few of the many factors that combine to predict our life expectancy, for example. Notable achievements over the past year include an increase in the breastfeeding rate, meaning that Darlington is now above the regional average for this metric, the launch of the Darlington Childhood Healthy Weight Plan and a successful funding bid to help prevent suicide locally, which is being delivered with partners. Smoking prevalence in adults has continued to reduce, from 14.4% in 2017 to 13.8% in 2016, below the national and regional averages. Key priorities for the next year include continuing to effectively manage and coordinate the response to the COVID-19 pandemic locally, and to ensure that recovery planning prioritises and targets residents' health, including mental health.

Narrative Report of Darlington Borough Council

Finally, performance towards 'A Place Designed to Thrive' is generally positive. £25m funding has secured for the redevelopment of Darlington railway station and surrounding area in partnership with the Tees Valley Combined Authority (TVCA) which includes the relocation of Darlington's cattle market out of the town centre. In line with the Town Centre Footfall Strategy, a number of actions were undertaken in 2019/20 to ensure our town centre continues to attract residents, visitors and businesses including the development of a business case for both the Future High Streets Fund and Towns Fund initiatives. Significant work is currently focussed on ensuring residents and visitors can safely visit Darlington as lockdown eases, including the widening of pathways and changes to bus shelters to allow for social distancing. In addition, the new Amazon site has now opened and recruited more than 2,000 staff, a significant proportion of which are Darlington residents.

4 Financial Performance

Economic climate

Since 2010 Darlington Borough Council has faced significant financial challenges due to reductions in funding from central government along with cost pressures and increasing demand within services. The process of balancing the Council's finances is ongoing and will last until at least 2022/23 whilst government policy is being developed.

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

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

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

As mentioned earlier in this report Covid-19 will have a significant impact on the Council's finances and Members will be updated on a regular basis to ensure proper governance is in place to manage the impact of the pandemic.

Narrative Report of Darlington Borough Council

Outturn (revenue and capital)

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

Comparison of Actual with Budget - Revenue

Net Expenditure 2019/20	Budget £'000	Actual £'000	Variance £'000
Departmental Resources			
Children and Adults Services	57,222	55,137	(2,085)
Economic Growth & Neighbourhood Services Group	21,201	20,319	(882)
Resources Group	10,338	9,971	(367)
Council Wide	382	98	(284)
Total Departmental Resources	89,143	85,525	(3,618)
Corporate Resources			
Financing Costs	510	242	(268)
Joint Venture - Investment Return	(1,212)	(1,142)	70
Contingencies Budget	(2,093)	(2,798)	(705)
Mid-year Savings	511	0	(511)
Futures Fund	2,118	1,653	(465)
Unallocated Grant Income	0	(151)	(151)
Total Corporate Resources	(166)	(2,196)	(2,030)
Net Expenditure	88,977	83,329	(5,648)
Reserves			
Planned Use of General Reserve	(996)	(996)	0
Departmental Balances brought forward	(2,841)	(2,841)	0
Departmental Balances carried forward	0	3,695	3,695
Futures Fund carried forward	(2,337)	(2,337)	0
Balance to Reserves	0	1,953	1,953
Total Reserves	(6,174)	(526)	5,648
Total Resources	82,803	82,803	0

Of the £3.618M departmental underspend, £3.695m is being carried forward with £0.077m being required from general reserves. All of the £2.100m corporate underspend is being returned to general reserves. In 2020/21, there is a planned net contribution to reserves of £1.271m (after taking account of the Futures Fund) as set out in the 2020-24 Medium Term Financial Plan.

Narrative Report of Darlington Borough Council

Where The Money Comes From and How It Was Spent

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

2018/19 £'000	Gross Income	2019/20 £'000	%
(20,327)	Gross Council Rents	(20,713)	8.3
(6,334)	Revenue Support Grant	(3,556)	1.4
(8,340)	General Government Grants	(9,058)	3.6
(23,146)	Business Rates Income	(23,712)	9.5
(23,355)	Dedicated Schools Grant	(23,517)	9.4
(47,455)	Demand on Collection Fund	(48,937)	19.6
(78,368)	Specific Government Grants	(77,039)	30.9
(19,100)	Capital Grants	(16,673)	6.7
(2,747)	Capital Receipts	(2,218)	0.9
(1,807)	Interest and Investment Income	(3,885)	1.6
(25,507)	Income from Fees & Charges	(20,108)	8.1
(256,486)		(249,416)	100.0

How it was spent:

2018/19 £'000	Gross Expenditure	2019/20 £'000	%
121,346	Children & Adult Services	121,267	55.6
111,801	Economic Growth & Neighbourhood Services Group	87,722	40.1
7,328	Resources	7,727	3.5
993	Other	1,818	0.8
241,468		218,534	100.0
265	Precepts & Levies	280	
24,105	Interest Payable	5,493	
4,280	IAS 19 Pension cost adjustment	4,120	
1,604	Amount of non-current assets written off on disposal	1,504	
440	Investment property expenditure and change in fair value	515	
197	Other	1,279	
30,891		13,191	
272,359	Total Expenditure	231,725	
15,873	Deficit for year	(17,691)	

Narrative Report of Darlington Borough Council

Sources of Funds to meet Capital Expenditure Plans

The total resources available for capital schemes during 2019/20 totalled £169.484m; however not all of the resources were planned to be expended during 2019/20. Some schemes have a build life of longer than one year so the actual planned spend for 2019/20 was £74.674m with an actual spend of £42.939m. The main areas of slippage relate to major projects in Transport and Housing as well as Ingenium Parc. The slippage into 2020/21 will be financed by unsupported borrowing, grants carried forward, Usable Capital Receipts and Revenue and Capital Contributions.

Capital expenditure 2019/20	Capital Spend Available	Planned Spending 2019/20	Actual	Approved Capital Spend Carried Forward
	£'000	£'000	£'000	£'000
Children & Adult Services	5,101	1,651	1,293	3,808
Economic Growth & Neighbourhood Services & Resources	164,249	72,889	41,512	122,737
Leased Assets	134	134	134	0
Total	169,484	74,674	42,939	126,545
Financed by				
**Corporate Unsupported Borrowing			13,925	
Capital Grants			16,705	
Housing Revenue Contributions			7,411	
Capital Contributions			162	
Housing Revenue Account Capital Receipts			1,432	
General Fund Capital Receipts			2,349	
General Fund Revenue Contributions			956	
Total			42,939	

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

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

	£'000
Highways & Transport Infrastructure	7,381
Housing Stock - Improvements	11,280
Investment Properties	36
Operational Buildings - Improvements	618
Revenue Expenditure Funded from Capital Under Statute (REFCUS)	683
Development Services	22,172
Children's Services Improvements to Schools	610
Vehicles, Plant & Equipment	159
Total	42,939

The Council is also committed to make payments estimated at £43.837m over the remaining term of the 25 year contract in respect of its PFI scheme (the Education Village and Harrowgate Hill Primary School). These became operational in March 2006 and August 2005 respectively. Both are part of the approved funding of £34.900m by the Department for Education. A recognition of the long-term contract entered into with partners Kajima Darlington Schools Limited can be found in Note 32 in the Notes to the Financial Statements and the liability relating to this contract can be found on the Balance Sheet.

Narrative Report of Darlington Borough Council

Four Year Capital Programme

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

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

Capital Expenditure and Funding

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Capital Expenditure and funding					
Children, Families and Learning	140	140	140	140	560
Housing (HRA)	23,843	23,486	20,936	20,936	89,201
Transport	2,670	2,670	2,670	2,670	10,680
Other Capital Programmes	947	947	947	947	3,788
Council Funded Schemes	3,700	400	400	400	4,900
Self Financing	500	0	10,000	10,000	20,500
Total Spending Plans	31,800	27,643	35,093	35,093	129,629
Resources					
Capital Grants	3,757	3,757	3,757	3,757	15,028
HRA Revenue Contributions	5,551	5,551	5,551	5,551	22,204
HRA Investment Fund	8,722	4,982	4,982	4,982	23,668
HRA Capital Receipts	303	303	303	303	1,212
Corporate Resources	12,967	13,050	10,500	10,500	47,017
Self Financing	500	0	10,000	10,000	20,500
Total Resources	31,800	27,643	35,093	35,093	129,629

Balance Sheet

The Council's summarised Balance Sheet is shown below:

	As at 31 March 2019 £m	As at 31 March 2020 £m
Non-current assets	415	460
Net current assets - debtors, stock, cash and short term investments less short term creditors and liabilities	(21)	(29)
Long Term Liabilities and Provisions	(333)	(348)
Total Net Assets	61	83
Represented by:		
Usable reserves	78	79
Unusable reserves	(17)	4
Total Reserves	61	83

Narrative Report of Darlington Borough Council

5 Principal Risks and Uncertainties

Risk Management is an essential part of effective and efficient management and planning and it strengthens the ability of the Council to achieve its objectives and enhance the value of services provided. It is also an important element in demonstrating continuous improvement as well as being part of the Council's Local Code of Corporate Governance that reflects the requirements of the CIPFA / SOLACE Framework of Corporate Governance.

A key element of the Council's planning process is that the areas of potential risk, which could adversely impact on the ability to meet objectives, are identified. These risks are plotted on to a standard likelihood and impact matrix with reference to management controls in place and working. The shaded part of the matrix signifies the area above the 'risk appetite line'. Risks in this region require further specific management i.e. are priorities for improvement that have an appropriate improvement action plan. The risk matrix shown below as reported to Audit Committee on 29 January 2020 highlights that the Council has no current Corporate risks that are above the 'risk appetite line'.

RISK MATRIX

CORPORATE

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

6 Significant Areas with Financial Implications

Pension Liabilities

Following the implementation of IAS 19, the accounts show the benefit entitlement earned by employees of the Local Government Pension Scheme in the relevant year rather than the charges to revenue based on employer's contributions payable and payments to pensioners in the year. The effect on the Balance Sheet is to reduce the net worth of the Council by the IAS 19 pension liability of £186.740m (in 2018/19 the IAS 19 pension liability was £175.650m). The Council's Pension fund has to be revalued every 3 years to set future contribution rates and subsequent to the last full actuarial valuation date of 31 March 2019 the deficit is to be recovered over a period of 20 years, as agreed by the Pension Fund Administering Authority with the Actuary. Further information is available in Note 37 in the Notes to the Financial Statements.

Business Rates Retention Scheme

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

Narrative Report of Darlington Borough Council

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

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by the Valuation Office Agency (VOA) and hence business rates outstanding as at 31 March 2020. As such the Council is required to make a provision for these amounts. Appeals are charged and provided for in proportion of the precepting shares. Due to the 2010 and 2017 Revaluation the total provision outstanding at the end of 2019/20 has been reviewed and reduced to £1.768m (2018/19 - £1.812m).

Treasury Management

On 21 February 2019 the Council approved the Treasury Management Strategy for 2019/20. Treasury management performance is reported to Cabinet and Council with detailed reviews being undertaken by Audit Committee.

With regards treasury management, the financial year 2019/20 presented similar circumstances to previous years in that investments continued to be made only where there was low risk. For the Council this manifested itself in the continuing reliance on internal borrowing (reduced external investments and using the money to pay for capital expenditure rather than borrowing). The Internal borrowing still had a positive effect on the MTFP's financing costs as generally investment rates are lower than borrowing rates and there would have been a cost of carrying those investments in addition to any counterparty risk there might have been.

During 2019/20 the Council complied with its legislative and regulatory requirements. The need for borrowing was only increased for capital purposes.

At 31 March 2020, the Council's external debt was £181.661m which is £2.5m more than the previous year. The average interest rate for borrowing was down to 2.97% from 3.06% in 2018/19. Investments totalled £56.799m at 31 March 2020 (£55.849m at 31 March 2019) earning interest of 1.51% over the year. Included in the total investments figure were Property Fund units of £29.999m which provided an annualised net return of 2.20%.

7 Explanation of the Accounting Statements

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

Darlington Borough Council's accounts for the year ended 31 March 2020 are set out in the following pages and a glossary of terms is provided on pages 89 to 100.

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Movement in Reserves Statement (page 16)

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

Comprehensive Income and Expenditure Statement (page 17)

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

Balance Sheet (page 18)

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

Cash Flow Statement (page 19)

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

Expenditure and Funding Analysis (page 21)

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

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The Supplementary Financial Statements are as follows: (page 75 - 87)

Housing Revenue Account (page 75)

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

Collection Fund (page 80)

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

Group Accounts (page 83)

There are a number of criteria by which the Council must determine whether its interests in associates, joint ventures and joint arrangements are significant enough to be included in the Council's consolidated accounts. After consideration of these criteria the Council has determined that it does have material interests and consequently group accounts have been prepared.

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

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

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Assistant Director, Resources;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets; and
- approve the Statement of Accounts.

The Assistant Director, Resources' Responsibilities

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

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

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

The Assistant Director, Resources has also:

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

Assistant Director's Statement

I certify that this Statement of Accounts has been prepared in accordance with the statutory requirements and proper accounting practices. It presents a true and fair view of the Council's financial position as at 31 March 2020 and the income and expenditure for the year ended 31 March 2020.



Dated: 29-Jun-20

Elizabeth Davison
Assistant Director, Resources

Movement in Reserves Statement for Darlington Borough Council for the year ended 31 March 2020

	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
Balance at 31 March 2018	(20,763)	(15,693)	(13,884)	(3,919)	(11,843)	(66,102)	(521)	(66,623)
<u>Movement in reserves during 2018/19</u>								
Deficit/(Surplus) on the Provision of Services	17,567	0	(1,694)	0	0	15,873	0	15,873
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	(10,694)	(10,694)
Total Comprehensive Income and Expenditure	17,567	0	(1,694)	0	0	15,873	(10,694)	5,179
Adjustments between accounting basis and funding basis under regulations (Note 5)	(20,818)	0	(1,097)	301	(6,070)	(27,684)	27,684	0
Net (Increase)/decrease before Transfers (to)/from Earmarked Reserves	(3,251)	0	(2,791)	301	(6,070)	(11,811)	16,990	5,179
Transfers from/(to) Earmarked Reserves (Note 6)	5,668	(5,668)	0	0	0	0	0	0
Decrease/(Increase) in 2018/19	2,417	(5,668)	(2,791)	301	(6,070)	(11,811)	16,990	5,179
Balance at 31 March 2019 carried forward	(18,346)	(21,361)	(16,675)	(3,618)	(17,913)	(77,913)	16,469	(61,444)
<u>Movement in reserves during 2019/20</u>								
Deficit/(Surplus) on the Provision of Services	1,928	0	(19,619)	0	0	(17,691)	0	(17,691)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	(3,081)	(3,081)
Total Comprehensive Income and Expenditure	1,928	0	(19,619)	0	0	(17,691)	(3,081)	(20,772)
Adjustments between accounting basis and funding basis under regulations (Note 5)	(1,066)	0	16,465	2,031	(651)	16,779	(16,779)	0
Net decrease/(Increase) before Transfers from/(to) Earmarked Reserves	862	0	(3,154)	2,031	(651)	(912)	(19,860)	(20,772)
Transfers (to)/from Earmarked Reserves (Note 6)	(884)	884	0	0	0	0	0	0
(Increase)/decrease in 2019/20	(22)	884	(3,154)	2,031	(651)	(912)	(19,860)	(20,772)
Balance at 31 March 2020 carried forward	(18,368)	(20,477)	(19,829)	(1,587)	(18,564)	(78,825)	(3,391)	(82,216)

Comprehensive Income and Expenditure Statement for Darlington Borough Council for the year ended 31 March 2020

2018/2019				2019/2020			
Gross Expenditure £'000	Gross Income £'000	Net Expenditure /(Income) £'000		Note	Gross Expenditure £'000	Gross Income £'000	Net Expenditure /(Income) £'000
121,345	(57,533)	63,812	Children & Adult Services	3	121,267	(58,141)	63,126
111,801	(84,251)	27,550	Economic Growth & Neighbourhood Services	3	87,722	(79,683)	8,039
7,329	(1,586)	5,743	Resources Group	3	7,727	(3,404)	4,323
993	(2,197)	(1,204)	Other	3	1,819	(150)	1,669
241,468	(145,567)	95,901	Cost of Services		218,535	(141,378)	77,157
937	0	937	Other operating expenditure	7	700	0	700
1,604	(2,747)	(1,143)	Losses/(Gains) on the disposal of non-current assets	7	1,504	(2,218)	(714)
28,350	(3,797)	24,553	Financing and investment income and expenditure	9	10,987	(3,885)	7,102
0	(104,375)	(104,375)	Taxation and non-specific grant income	10	0	(101,936)	(101,936)
272,359	(256,486)	15,873	(Surplus)/deficit on Provision of Services		231,726	(249,417)	(17,691)
		(1,298)	Surplus on revaluation of Property, Plant and Equipment assets				(3,389)
		(9,440)	Actuarial (gains)/losses on pensions assets/liabilities	37			300
		44	Impairment losses on non-current assets charged to the revaluation reserve				8
		(10,694)	Other Comprehensive Income and Expenditure				(3,081)
		5,179	Total Comprehensive Income and Expenditure				(20,772)

Balance Sheet of Darlington Borough Council as at 31 March 2020

As at 31 March 2019 £'000		As at 31 March 2020 £'000	Notes
367,019	Property, Plant and Equipment	405,654	16
8,639	Investment Properties	8,293	17
3,483	Heritage Assets	2,339	18
29,437	Long Term Investments	28,578	38
6,393	Long Term Debtors	14,252	38
414,971	Total Long Term Assets	459,116	
0	Short Term Investments	4,993	38
679	Inventories	286	20
23,467	Short Term Debtors	20,138	22
24,673	Cash and Cash Equivalents	16,263	23
280	Assets Held For Sale	280	
49,099	Total Current Assets	41,960	
(39,164)	Short Term Borrowing	(36,632)	38
(29,989)	Short Term Creditors	(32,083)	24
(888)	Short Term Provisions	(2,567)	15
(70,041)	Total Current Liabilities	(71,282)	
(11,498)	Long Term Creditors	(10,358)	38
(964)	Long Term Provisions	(1,089)	25
(142,727)	Long Term Borrowing	(146,630)	38
(175,650)	Other Long Term Liabilities	(186,740)	37
(1,746)	Capital Grants Receipts In Advance	(2,761)	31
(332,585)	Total Long Term Liabilities	(347,578)	
61,444	Net Assets	82,216	
77,913	Usable Reserves	78,825	28
(16,469)	Unusable Reserves	3,391	29
61,444	Total Reserves	82,216	

Cash Flow Statement for Darlington Borough Council for the year ended 31 March 2020

2018/19		2019/20
£'000		£'000
(15,873)	Deficit on the provision of services	17,691
28,627	Adjustments to net deficit on the provision of services for non-cash movements	9,660
(21,842)	Adjustments for items included in the net (deficit) on the provision of services that are investing and financing activities	(16,387)
(9,088)	Net cash flow from/(used in) Operating Activities	10,964
	Investing Activities	
(29,618)	Purchase of property, plant and equipment and investment property	(34,208)
(149,398)	Purchase of short term and long term investments	(156,980)
150,830	Proceeds from the sale of short term investments	151,980
2,747	Proceeds from the sale of property, plant and equipment and investment property	2,217
18,361	Capital grants received	17,688
(7,078)	Net cash flow used in Investing Activities	(19,303)
	Financing Activities	
37,505	Cash receipts of short and long term borrowing	30,003
(223)	Billing Authorities - Council Tax and NNDR adjustments	(376)
(1,172)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-Balance Sheet PFI contracts	(1,155)
(18,500)	Repayments of short and long term borrowing	(28,600)
20	Other (payments)/receipts for financing activities	57
17,630	Net cash flow from Financing Activities	(71)
1,464	Net increase in cash and cash equivalents	(8,410)
23,209	Cash and cash equivalents at the beginning of the reporting period	24,673
24,673	Cash and cash equivalents at the end of the reporting period (Note 23)	16,263

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

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

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2020/21 Code although there are no such changes that are expected to have a significant effect on the Council's accounts.

IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2021.

IAS 19 Employee Benefits will require the remeasurement of net pension asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after the change to the plan. The updating of these assumptions only applies to changes from 1 April 2020 and since this could result in positive, negative or no improvement in the pension liability, no prediction can be made of the possible accounting impact to the Council.

2 Critical Judgements in Applying Accounting Policies

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

The critical judgements made in the Statement of Accounts are:

- The Council has a number of interests in other entities that fall within the group boundary of the Council on the grounds of control and significant influence in line with the Code. During 2019/20 the Council has assessed its interests in the 3 Joint Ventures with Esh Homes Limited of which the Council owns 50% of the share capital of the Companies and concluded that they will be consolidated into its group accounts.
- In line with accounting standards and the Code, all maintained schools in the Borough are now considered to be entities controlled by the Council. Rather than produce group accounts, the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts.
- Where the land and building assets used by the school are owned by an entity other than the Council, school or School Governing Body then it is not included on the Council's Balance Sheet.
- As at the 31 March 2020 the Council now only has no Voluntary Aided (VA) schools as the last one converted to an Academy during the year.
- In the current economic climate there is a high degree of uncertainty about the future levels of funding for local government. However the Council has determined that this uncertainty is not yet sufficient to provide an indication that assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Council continues to assess the degree of componentisation within its non-current asset portfolio, as part of the 5 year rolling programme of non-current asset valuations. On an annual basis the Council will review capital expenditure to assess if any new material components have been added to the Council's non-current asset portfolio.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

- Judgement is required to determine whether the Council can be reasonably assured that the conditions of grant and contribution income received have been met before recognising them as income in the Comprehensive Income and Expenditure Statement. Where conditions require specified expenditure to have taken place, the grant monies will not be recognised until this has happened. Equally where conditions specify that a grant or contribution must be repaid in the event of non-expenditure, the income is not recognised until the conditions of the grant have been met.
- The Council is deemed to control the education services provided under the PFI agreement in the schools and also to control the residual value of the schools at the end of the agreement. The accounting policies and PFI schemes and similar contracts have been applied to the Education Village and Harrowgate Hill Primary School which became operational in March 2006 and August 2005 respectively. The Education Village transferred to Academy status on 1 April 2012 so has therefore been removed from the Council's Balance Sheet. Harrowgate Hill is recognised as Property, Plant and Equipment on the Council's Balance Sheet.
- The Council has a 2.91% shareholding in Durham Tees Valley Airport and with the adoption of IFRS 9 Financial Instruments it is now classified at fair value and although the airport has recently been acquired by Goosepool 2019 Ltd which is a subsidiary of the Tees Valley Combined Authority (TVCA), the Council's shareholding is unaffected as is its valuation.
The new standard sets out that investments in equity should be classified as fair value through profit and loss unless there is an irrevocable election to designate the asset as fair value through comprehensive income. The shareholding is a strategic investment and not held for trading and therefore the Council has opted to designate it as fair value through other comprehensive income (FVOCI). This means that there would be no impact on the revenue budget and that any gains or losses on the valuation of the shareholding will be transferred to a Financial Instruments Revaluation Reserve.

3 Expenditure and Funding Analysis

2019/20	Reported for resource management	Adjustment to arrive at the net amount chargeable to the General Fund and HRA Balances	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
Group	£'000	£'000	£'000	£'000	£'000
Children & Adult Services	57,646	4,120	61,766	1,359	63,125
Economic Growth & Neighbourhood Services	21,283	(3,837)	17,446	(9,406)	8,040
Resources	10,193	(6,487)	3,706	617	4,323
Other	(5,245)	6,469	1,224	444	1,668
Net Cost of Services	83,877	265	84,142	(6,986)	77,156
Other income and expenditure	(83,896)	(2,538)	(86,434)	(8,413)	(94,847)
(Surplus)/deficit on Provision of Services	(19)	(2,273)	(2,292)	(15,399)	(17,691)
Opening General Fund, HRA and Earmarked Reserves Balance at 1 April 2019			(56,382)		
Add surplus on General Fund and HRA Balance in Year			(2,292)		
Closing General Fund, HRA and Earmarked Reserves Balance at 31 March 2020 *			(58,674)		

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

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

2018/19	Reported for resource management	Adjustment to arrive at the net amount chargeable to the General Fund and HRA Balances	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
Group	£'000	£'000	£'000	£'000	£'000
Children & Adult Services	55,037	5,089	60,126	3,686	63,812
Economic Growth & Neighbourhood Services	19,535	(3,916)	15,619	11,931	27,550
Resources	9,869	(5,598)	4,271	1,472	5,743
Other	(53)	(708)	(761)	(443)	(1,204)
Net Cost of Services	84,388	(5,133)	79,255	16,646	95,901
Other income and expenditure	(81,977)	(3,320)	(85,297)	5,269	(80,028)
Deficit/(surplus) on Provision of Services	2,411	(8,453)	(6,042)	21,915	15,873
Opening General Fund, HRA and Earmarked Reserves Balance at 1 April 2018			(50,340)		
Plus surplus on General Fund and HRA Balance in Year			(6,042)		
Closing General Fund, HRA and Earmarked Reserves Balance at 31 March 2019 *			(56,382)		

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

3a Note to the Expenditure and Funding Analysis

2019/20	Adjustments between Accounting Basis and Funding Basis 2019/20			
Group	Adjustments for Capital Purposes £'000	Net change for Pensions Adjustments £'000	Other Differences £'000	Total Adjustments £'000
Children & Adult Services	376	2,647	(1,664)	1,359
Economic Growth & Neighbourhood Services	(9,845)	2,825	(2,386)	(9,406)
Resources	9	744	(136)	617
Other	0	454	(10)	444
Net Cost of Services	(9,460)	6,670	(4,196)	(6,986)
Other income and expenditure from the Expenditure and Funding Analysis	(19,497)	4,120	6,964	(8,413)
Difference between General fund deficit and Comprehensive Income and Expenditure deficit	(28,957)	10,790	2,768	(15,399)

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement	Adjustments between Accounting Basis and Funding Basis			
	2018/19			
2018/19	Adjustments for Capital Purposes	Net change for Pensions Adjustments	Other Differences	Total Adjustments
Group	£'000	£'000	£'000	£'000
Children & Adult Services	325	5,192	(1,831)	3,686
Economic Growth & Neighbourhood Services	8,308	5,409	(1,785)	11,932
Resources	74	1,518	(121)	1,471
Other	0	291	(734)	(443)
Net Cost of Services	8,707	12,410	(4,471)	16,646
Other income and expenditure from the Expenditure and Funding Analysis	(21,415)	4,280	22,404	5,269
Difference between General fund (surplus)/deficit and Comprehensive Income and Expenditure deficit	(12,708)	16,690	17,933	21,915

3b Expenditure and income analysed by nature

The Council's expenditure and income is analysed as follows:	2018/19 £'000	2019/20 £'000
Expenditure		
Employee benefits expenses	76,742	73,976
Other service expenses	150,738	150,628
Depreciation, impairment & other capital charges	19,480	(576)
Interest payments	22,858	5,493
Precepts and levies	265	280
Payments to Housing Capital Receipts Pool	672	420
Amounts of non-current assets written off on disposal	1,604	1,504
Total expenditure	272,359	231,725
Income		
Fees, charges and other service income	(74,645)	(68,971)
Capital receipts	(2,747)	(2,218)
Interest and investment income	(1,807)	(2,433)
Income from council tax and business rates	(70,601)	(72,649)
Revenue grants and contributions	(87,586)	(86,472)
Capital grants and contributions	(19,100)	(16,673)
Total income	(256,486)	(249,416)
Deficit/(surplus) on the provision of services	15,873	(17,691)

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

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

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

The items in the Council's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.023M for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability of £187m to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption as advised by the Actuary would result in a decrease in the pension liability of £9.810m for funded LGPS benefits. However, the assumptions interact in complex ways.
Fair Value Measurements	When the fair value of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs) their fair value is measured using the following valuation techniques: For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date; and for Level 3 inputs, valuations based on; most recent valuations adjusted to current valuation by the use of indexation and impairment review. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. Changes in assumptions could affect the fair value of the Council's assets and liabilities.	The Council uses a combination of indexation techniques, beacon valuations and discounted cash flow (DCF) models to measure the fair value of its Investment Properties, Surplus Assets and Assets Held for Sale under IFRS13 depending on which technique it considers most appropriate. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, occupancy levels, floor area repairs backlogs, beacon classifications and others. Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement of these areas.
Business Rates Appeals	Since the introduction of the Business Rates Retention Scheme effective from 1 April 2013, local authorities are liable for successful appeals against business rates charged to businesses in 2019/20 and earlier years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2020. The estimate has been calculated using the latest Valuation Office ratings list of appeals and the analysis of successful appeals to date. The Council's share (49%) of the business rate appeals provision at this date amounted to £0.079m which is a reduction of £0.022m compared to the previous year. Following the 2017 revaluation a new check, challenge, appeal process has been introduced, the impact of which is highly uncertain at the present moment. A provision of £0.787m has been made for the estimated success of future appeals for losses for the period ended 31/03/20.	An increase over the forthcoming year of 10% in value of successful appeals would have the effect of adding £0.177m to the overall provision.
Arrears	At 31 March 2020, the Council had a balance of sundry debtors of £8.247m. A review of significant balances suggested that an impairment of doubtful debts of 25.42% (£2.096m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts wouldn't require a substantial additional amount to be set aside as an allowance, due to the current policy in place.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

5 Adjustments Between Accounting Basis and Funding Basis Under Regulations

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

2019/20	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£'000	£'000	£'000	£'000	£'000
Adjustments to the Revenue Resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pension costs (transferred from the Pensions Reserve)	(10,229)	(561)	0	0	0
Financial instruments (transferred to the Financial Instruments Adjustment Account)	281	166	0	0	0
Council tax and NDR (transfers to Collection Fund)	(1,401)	0	0	0	0
Holiday pay (transferred to the Accumulated Absences Reserve)	(105)	0	0	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	7,387	8,820	0	0	(16,673)
Investment Funds	(859)	0	0	0	0
Total Adjustments to Revenue Resources	(4,926)	8,425	0	0	(16,673)
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	2,218	0	(2,218)	0	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(468)	0	468	0	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,155	629	0	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	955	7,411	0	0	0
Total Adjustments between Revenue and Capital Resources	3,860	8,040	(1,750)	0	0
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	3,781	0	0
Application of capital grants to finance capital expenditure	0	0	0	0	16,022
Total Adjustments to Capital Resources	0	0	3,781	0	16,022
Total Adjustments	(1,066)	16,465	2,031	0	(651)

2018/19 Comparative Figures	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£'000	£'000	£'000	£'000	£'000
Adjustments to the Revenue Resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pension costs (transferred from the Pensions Reserve)	(15,816)	(874)	0	0	0
Financial instruments (to/from) the Financial Instruments Adjustment Account	(17,648)	41	0	0	0
Council tax and NDR (transfers from Collection Fund)	286	0	0	0	0
Holiday pay (transferred to the Accumulated Absences Reserve)	(45)	0	0	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	8,737	(9,719)	0	0	(19,100)
Investment Funds	475	0	0	0	0
Total Adjustments to Revenue Resources	(24,011)	(10,552)	0	0	(19,100)
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	2,747	0	(2,747)	0	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(726)	0	726	0	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,172	629	0	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	0	8,826	0	0	0
Total Adjustments between Revenue and Capital Resources	3,193	9,455	(2,021)	0	0
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	2,322	0	0
Application of capital grants to finance capital expenditure	0	0	0	0	13,030
Total Adjustments to Capital Resources	0	0	2,322	0	13,030
Total Adjustments	(20,818)	(1,097)	301	0	(6,070)

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

6 Transfers to / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back to earmarked reserves to meet General Fund and HRA expenditure in 2019/20.

	Balance at 31 March 2018 £'000	Transfers Out 2018/19 £'000	Transfers In 2018/19 £'000	Balance at 31 March 2019 £'000	Transfers Out 2019/20 £'000	Transfers In 2019/20 £'000	Balance at 31 March 2020 £'000
General Fund	20,763	(2,841)	424	18,346	(3,695)	3,717	18,368
	20,763	(2,841)	424	18,346	(3,695)	3,717	18,368
Earmarked Reserves:							
Balances held by schools under scheme of delegation	708	(706)	943	945	(943)	815	817
Blackwell Pensions Reserve	45	0	6	51	0	4	55
Building Control	(131)	0	21	(110)	(11)	79	(42)
Business Central Planned Maintenance & Other Associated Costs	0	0	0	0	0	1	1
Civic Theatre Restoration Levy	(796)	(189)	0	(985)	(184)	0	(1,169)
Collection Fund Reserve	3,368	(821)	3,839	6,386	(3,909)	4,496	6,973
Crematorium - Mercury Abatement Reserve Additional Fees	87	(30)	211	268	(2)	217	483
Crematorium - Mercury Abatement Reserve Fund					(298)	92	464
Environmental Levy	632	(47)	85	670			
Crematorium Refurbishment Fund	13	(47)	58	24	0	28	52
Dedicated Schools Grant Reserve	(1,239)	(1,664)	0	(2,903)	(1,775)	153	(4,525)
Digital Apprenticeship Services Account	132	0	64	196	0	21	217
Direct Payments Contingency Reserve	121	0	116	237	(10)	16	243
Dolphin Centre Planned Maintenance	32	0	33	65	0	33	98
Earmarked Departmental Reserves	1,898	(1,898)	2,841	2,841	(2,841)	3,695	3,695
Eastbourne 3G Playing Pitch Sinking Fund	26	0	15	41	0	15	56
Enterprise Zone NNDR	396	0	203	599	(28)	199	770
Experience Darlington	140	0	31	171	(43)	0	128
Former Blackwell Golf Club Grounds	6	0	6	12	(7)	0	5
Futures Fund	0	0	0	0	(1,139)	2,937	1,798
Hippodrome Activity Plan	0	0	172	172	(43)	0	129
Hippodrome Planned Maintenance	0	0	0	0	0	40	40
ICT Infrastructure	643	0	310	953	(337)	0	616
Insurance Fund	2,094	0	289	2,383	(125)	187	2,445
Local Development Fund Public Enquiry	80	0	0	80	0	0	80
Local Authority EU Exit Preparation	0	0	105	105	0	210	315
Performance Reward Grant Reserve	(57)	(5)	0	(62)	(74)	0	(136)
Morton Palms - Homes England	0	0	1,000	1,000	(703)	0	297
Municipal Elections Reserve	0	0	0	0	0	46	46
Organisational Headroom (Project Preparation)	90	0	0	90	0	0	90
Permit Scheme for Road & Street Works	0	0	0	0	(11)	0	(11)
Public Health Reserve	472	0	103	575	(22)	0	553
Redundancy & Decommissioning Reserve	974	(187)	0	787	(134)	0	653
Revenue Contribution to Capital Outlay	1,875	0	629	2,504	(5,704)	3,277	77
Revenue Grants Unapplied	3,819	(3,819)	3,948	3,948	(3,948)	3,654	3,654
Ring-fenced Planning Fees	58	0	70	128	0	34	162
Street Scene Volunteering	107	(17)	0	90	(5)	0	85
Traffic Signal Replacements Reserve	100	0	0	100	0	0	100
VAT Reserve	0	0	0	0	0	1,163	1,163
	15,693	(9,430)	15,098	21,361	(22,296)	21,412	20,477
Housing Revenue Account	13,884	0	2,791	16,675	0	3,154	19,829
	13,884	0	2,791	16,675	0	3,154	19,829

7 Other Operating Expenditure

	2018/19 £'000	2019/20 £'000
Parish Council precepts	161	174
Levies	104	106
Payments to the Government Housing Capital Receipts Pool	672	420
(Gains)/Losses on the disposal of non-current assets	(1,143)	(714)
Total	(206)	(14)

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

8 Officers' Remuneration

8 a) Officer Remuneration in Bands

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

Remuneration band	2018/19				2019/20			
	Number of employees			No. of redundancies included in total	Number of employees			No. of redundancies included in total
	Schools	Non - schools	Total		Schools	Non-schools	Total	
£50,000 - £54,999	2	20	22	0	4	25	29	0
£55,000 - £59,999	1	7	8	0	0	6	6	0
£60,000 - £64,999	2	2	4	1	2	3	5	0
£65,000 - £69,999	0	2	2	0	0	2	2	0
£70,000 - £74,999	0	0	0	0	1	0	1	0
£75,000 - £79,999	1	1	2	0	1	1	2	0
£80,000 - £84,999	0	3	3	0	0	1	1	0
£85,000 - £89,999	1	3	4	0	0	2	2	0
£90,000 - £94,999	0	0	0	0	1	3	4	0
£95,000 - £99,999	0	2	2	0	0	2	2	0
£100,000 - £104,999	0	0	0	0	0	1	1	0
£105,000 - £109,999	0	0	0	0	0	0	0	0
£110,000 - £114,999	0	0	0	0	0	0	0	0
£115,000 - £119,999	0	0	0	0	0	0	0	0
£120,000 - £124,999	0	2	2	0	0	2	2	0
£125,000 - £129,999	0	0	0	0	0	0	0	0
£130,000 - £134,999	0	0	0	0	0	0	0	0
£135,000 - £139,999	0	0	0	0	0	0	0	0
£140,000 - £144,999	0	1	1	0	0	0	0	0
£145,000 - £149,999	0	0	0	0	0	0	0	0
£150,000 +	0	0	0	0	0	1	1	0
	7	43	50	1	9	49	58	0

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

8 b) Disclosure of Remuneration for Senior Employees 2019/20

	Post Holder (required if salary exceeds £150,000)	Salary	Expenses Allowances	Retirement Package	Total Remuneration (excl pension contributions)	Employer pension contributions	Total Remuneration (incl pension contributions)
		£	£	£	£	£	£
Managing Director	Paul Wildsmith	150,858	0	0	150,858	35,753	186,611
Director of Economic Growth & Neighbourhood Services		122,820	0	0	122,820	29,108	151,928
Director of Children and Adult Services		122,820	0	0	122,820	29,108	151,928
Director of Public Health		97,000	0	0	97,000	13,949	110,949
Assistant Director Resources		100,251	0	0	100,251	23,760	124,011

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

Disclosure of Remuneration for Senior Employees 2018/19

	Post Holder (required if salary exceeds £150,000)	Salary	Expenses Allowances	Retirement Package	Total Remuneration (excl pension contributions)	Employer pension contributions	Total Remuneration (incl pension contributions)
		£	£	£	£	£	£
Chief Executive	Ada Burns	25,625	0	0	25,625	5,817	31,442
Managing Director (wef 1 June 2018)		124,477	0	0	124,477	28,068	152,545
Director of Neighbourhood Services and Resources (see below)		19,675	0	0	19,675	4,655	24,330
Director of Economic Growth & Neighbourhood Services		120,412	0	0	120,412	27,333	147,745
Director of Children and Adult Services		120,412	0	0	120,412	27,333	147,745
Director of Public Health		97,000	0	0	97,000	13,949	110,949
Assistant Director Resources		96,763	0	0	96,763	21,965	118,728

The Chief Executive retired on 31 May 2018 as part of a restructure of the Senior Management Team and the post was deleted from the establishment.

The post of Managing Director was created from 1 June 2018

The post of Director of Neighbourhood Services and Resources was removed from the establishment from 1 June 2018

The Director of Economic Growth post was changed to Director of Economic Growth and Neighbourhood Services from 1 June 2018

8 c) Exit Packages

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

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

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19 £	2019/20 £
£0 - £20,000	5	8	18	19	23	27	205,668	192,182
£20,001 - £40,000	0	0	4	0	4	0	118,102	0
£40,001 - £60,000	0	1	0	0	0	1	0	48,371
£60,001 - £80,000	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0
£150,001 +	0	0	0	0	0	0	0	0
Total	5	9	22	19	27	28	323,770	240,553

9 Financing and Investment Income and Expenditure

	2018/19 £'000	2019/20 £'000
Interest payable and similar charges	24,105	5,493
Pensions interest cost and expected return on pensions assets (Note 37)	4,280	4,120
Interest receivable and similar income	(1,807)	(2,433)
Income and expenditure in relation to investment properties and changes in their fair value (Note 17)	(282)	(84)
Gains on trading operations	(1,268)	(852)
Property Fund changes in fair value measurement	(475)	858
Total	24,553	7,102

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

10 Taxation and Non Specific Grant Income

	2018/19 £'000	2019/20 £'000
Council tax income	(47,455)	(48,937)
Business rates income	(23,146)	(23,712)
Non-ringfenced government grants	(14,674)	(12,614)
Capital grants and contributions	(19,100)	(16,673)
Total	(104,375)	(101,936)

11 Material Items of Income and Expense

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

12 Trading Operations

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

	2018/19		2019/20	
	Turnover £'000	Surplus / (Deficit) £'000	Turnover £'000	Surplus / (Deficit) £'000
Building Cleaning	560	(109)	600	(121)
Construction	5,606	834	6,981	476
Catering	1,476	371	1,436	295
Grounds Maintenance	264	7	237	2
Highways and Sewerage	6,514	582	8,709	479
Maintenance	4,147	396	5,163	433
School Meals-Best Value	714	(30)	655	(37)
Surplus on Trading Accounts	19,281	2,051	23,781	1,527

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

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

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

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

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

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

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

13 External Audit Costs

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

	2018/19 £'000	2019/20 £'000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	72	72
Fees payable for the certification of grant claims and returns for the year	10	10
Fees payable in respect of other services provided during the year	10	14
Total	92	96

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

14 Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2018. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school/nursery provider.

Details of the deployment of DSG receivable for 2019/20 are as follows:

	Central Expenditure £'000	ISB £'000	Total £'000
Final DSG for 2019/20 before Academy and high needs recoupment			87,633
Academy & needs recoupment recouped 2019/20			(64,270)
Total DSG after academy & high needs recoupment for 2019/20			23,363
Final Early Years Adjustment 2018/19 (DSG adjusted 2019/20)			153
Sub-total			23,516
Plus Brought Forward from 2018/19			(2,902)
Carry Forward to 2020/21 agreed in advance			0
Final DSG for distribution in 2019/20			20,614
Agreed initial budget distribution in 2019/20 (note a)	10,262	76,259	86,521
In Year Adjustments (note b)	(2,845)	(63,062)	(65,907)
Final budget distribution for 2019/20	7,417	13,197	20,614
Less actual central expenditure	12,255	0	12,255
Less Actual ISB deployed to Schools		12,884	12,884
Carry Forward to 2020/21	(4,838)	313	(4,525)

Notes:

- Initial budget allocation as per Section 251 statement, based on indicative DSG allocation received December 2018
- Includes carry forward from 2018/19 and 2019/20 in year DSG adjustments included within the final DSG allocation, e.g. additional high needs allocation, recoupment, and early years adjustments. Excludes the final 2019/20 Early Years adjustment to be received June 2020.

15 Short Term Provisions

	NNDR Appeals £'000	Other Provision s £'000	Total £'000
Balance at 1 April 2019	(888)	0	(888)
Additional Provisions made in 2019/20	0	(1,700)	(1,700)
Amounts Settled in 2019/20	16	0	16
Unused amounts reversed in 2019/20	6	0	6
Balance at 31 March 2020	(866)	(1,700)	(2,566)

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

There is a provision of £1.700m that has been created in year to offset a potential repayment to HMRC.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

16 Property, Plant and Equipment

Movements in 2019/20:	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus	Total Property, Plant & Equipment	PFI Assets Included in Property, Plant & Equipment
Cost or Valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2019	153,176	104,292	32,168	106,617	9,243	8,675	62	414,233	8,396
Additions	11,238	3,862	159	10,024	0	8,889	0	34,172	37
Accumulated depreciation & impairment Written Off to Gross Carrying Amount	(3,177)	(1,074)	0	0	(49)	0	0	(4,300)	(299)
Revaluation increase recognised in the Revaluation Reserve	4,149	397	0	0	(12)	0	(1)	4,533	534
Revaluation increases / (decreases) recognised in the Deficit on the Provision of Services	12,008	(725)	0	0	(946)	0	(1)	10,336	0
Derecognition - disposals	(1,467)	(42)	(1,965)	0	0	0	0	(3,474)	0
Assets reclassified from Investment Properties	0	0	0	0	0	(1)	0	(1)	0
At 31 March 2020	175,927	106,710	30,362	116,641	8,236	17,563	60	455,499	8,668
Accumulated Depreciation and Impairment									
At 1 April 2019	154	2,097	18,225	26,489	206	31	12	47,214	592
Depreciation charge	2,891	1,285	1,230	2,974	0	0	0	8,380	147
Depreciation written out to the Deficit on the Provision of Services	(2,882)	(1,068)	0	0	0	0	0	(3,950)	(311)
Impairment losses recognised in the Revaluation Reserve	8	0	0	0	0	0	0	8	0
Impairment reversals recognised in the Deficit on the Provision of Services	(8)	199	0	20	(49)	0	0	162	0
Derecognition - disposals	0	(8)	(1,961)	0	0	0	0	(1,969)	0
At 31 March 2020	163	2,505	17,494	29,483	157	31	12	49,845	428
Net book value									
at 31 March 2020	175,764	104,205	12,868	87,158	8,079	17,532	48	405,654	8,240
at 31 March 2019	153,022	102,195	13,943	80,128	9,037	8,644	50	367,019	7,804

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

Comparative Movements in 2018/19	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus	Total Property, Plant & Equipment	PFI Assets Included in Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
At 1 April 2018	153,447	102,007	31,739	99,198	9,237	2,173	62	397,863	8,396
Additions	10,937	9,528	429	7,419	6	1,295	0	29,615	0
Accumulated depreciation & impairment Written Off to Gross Carrying Amount	(2,771)	(769)	0	0	0	0	0	(3,540)	0
Revaluation increase recognised in the Revaluation Reserve	86	1,212	0	0	0	0	0	1,298	0
increases/(decreases) recognised in the Deficit on the Provision of Services	(6,919)	(2,603)	0	0	0	0	0	(9,522)	0
Derecognition - disposals	(1,604)	0	0	0	0	0	0	(1,604)	0
Other movements in cost or valuation	0	(5,207)	0	0	0	5,207	0	0	0
At 31 March 2019	153,176	104,292	32,168	106,617	9,243	8,675	62	414,233	8,396
Accumulated Depreciation and Impairment									
At 1 April 2018	146	1,479	16,734	23,514	206	31	12	42,122	445
Depreciation charge	2,529	1,343	1,491	2,975	0	0	0	8,338	147
Depreciation written out to the Surplus on the Provision of Services	(2,521)	(760)	0	0	0	0	0	(3,281)	0
Impairment losses recognised in the Revaluation Reserve	0	44	0	0	0	0	0	44	0
Impairment reversals recognised in the Surplus on the Provision of Services	0	(9)	0	0	0	0	0	(9)	0
At 31 March 2019	154	2,097	18,225	26,489	206	31	12	47,214	592
Net book value									
at 31 March 2019	153,022	102,195	13,943	80,128	9,037	8,644	50	367,019	7,804
at 31 March 2018	153,301	100,528	15,005	75,684	9,031	2,142	50	355,741	7,951

Depreciation

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

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

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

All valuations were carried out by Align Property Partners, of Northallerton, North Yorkshire DL6 2YD with valuations of land and buildings carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The outbreak of COVID-19, declared by the World Health Organisation as a "Global Pandemic" on the 11 March 2020, has impacted global financial markets, and market activity is being impacted in many sectors. At the valuation date, it is considered that less weight can be attached to previous market evidence for comparison purposes to inform opinions of value. The current response to COVID-19 has led to an unprecedented set of circumstances on which to base a judgement. The valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty, and a higher degree of caution, should be attached to the valuations than would normally be the case.

The significant assumptions applied in estimating the fair values are:

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

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Assets Under Construction £'000	Surplus £'000	Total Property, Plant & Equipment £'000	PFI Assets Included in Property, Plant & Equipment £'000
Carried at historical cost	0	2,312	12,868	87,158	8,079	17,532	48	127,997	1,304
valued at fair value as at:									
31 March 2020	175,764	12,122	0	0	0	0	0	187,886	6,936
31 March 2019	0	22,056	0	0	0	0	0	22,056	
31 March 2018	0	29,120	0	0	0	0	0	29,120	
31 March 2017	0	17,981	0	0	0	0	0	17,981	
31 March 2016	0	20,614	0	0	0	0	0	20,614	
Total Cost or Valuation	175,764	104,205	12,868	87,158	8,079	17,532	48	405,654	8,240

Capital Commitments

At 31 March 2020 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment that were budgeted to cost £31.800m in future years, of which £3.757m will be funded from grant, £14.576m from the Housing Revenue Account, £9.267m to be prudentially borrowed, £3.700m from corporate resources and £0.500m to be self financing. Similar commitments at 31 March 2019 were £30.199m. The commitments at 31 March 2020 are:

Scheme	Total Estimate £'000
Housing - new build	17,989
Housing - various other enhancements including heating replacement, internal planned maintenance & roofing	5,854
School condition allocations	140
Highway maintenance	1,689
Integrated Transport	886
Pothole Action Fund	95
Disabled Facilities	947
Crown street Library	2,900
Capitalised Repairs	250
Other	550
Self Financing Schemes	500
	31,800

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

17 Investment Properties

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

	2018/19 £'000	2019/20 £'000
Rental income from investment property	495	722
Direct operating expenses arising from investment property	(16)	(124)
Net gain	479	598

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

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

	2018/19 £'000	2019/20 £'000
Balance at start of the year	9,073	8,639
Additions:		
Purchases	0	0
Subsequent Expenditure	5	36
Disposals	0	0
Net loss from fair value adjustments	(315)	(383)
Transfers from Property, Plant and Equipment	(124)	1
Adjustment due to historic imbalance	0	0
Balance at end of the year	8,639	8,293

Fair Value Hierarchy

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

18 Heritage Assets

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

	Art Collection £'000	Civic Regalia £'000	Railway Museum £'000	Total Assets £'000
Cost or Valuation 1 April 2018	758	565	2,160	3,483
Additions	0	0	0	0
31 March 2019	758	565	2,160	3,483
Cost or Valuation 1 April 2019	758	565	2,160	3,483
Additions / (Reductions)	333	(47)	(1,430)	(1,144)
31 March 2020	1,091	518	730	2,339

The Council holds a range of heritage assets comprising the Borough Art Collection, the Railway Museum Collection and various pieces of Civic Regalia. The Art Collection has been valued by an external valuer in 19/20 at £1.091m. The Civic Regalia was valued by an external valuer in 19/20 at £0.518m. External valuations are reviewed periodically. The Railway Museum Collection is reported in the balance sheet at insurance valuation (based on market values) at £0.730m and is updated annually. In addition, the Council has on loan certain items from the National Railway Museum with an insurance valuation of £1.100m. Because of the nature of the loan agreement these assets are not included within the Council's Balance Sheet. The Council's heritage asset holdings are substantially static with low numbers of acquisitions or donations and no recent disposals.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

Further information

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

The Council owns over 150 items of Civic Regalia ranging from dinner and silverware to the Chains of Office.

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

19 Impairment Losses

During 2019/20, the Council has recognised impairment losses of £0.519m (£0.294m in 2018/19) in relation to its land and buildings.

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

Impairments have been charged as follows:

	31 March 2019 £'000	31 March 2020 £'000
Comprehensive Income and Expenditure Statement		
- Economic Growth & Neighbourhood Services & Resources	294	519
	294	519

20 Inventories

	Consumable Stores		Maintenance Materials		Client Services Work In Progress		Total	
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000
Balance at start of year	125	147	133	519	7	13	265	679
Purchases	1,138	1,084	1,507	1,033	6	0	2,651	2,117
Recognised as an expense in the year	(1,116)	(1,080)	(1,121)	(1,418)	0	(12)	(2,237)	(2,510)
Balance at year-end	147	151	519	134	13	1	679	286

21 Pooled Budgets

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

The Council has entered into a pooled budget arrangement with Darlington Clinical Commissioning Group for the provision of health and social care services to meet the needs of the population of the borough of Darlington. The services being commissioned or provided by the Council or Darlington CCG depend upon the needs of the service recipient. The Council and Darlington CCG has an ongoing Section 75 agreement in place for funding these services and this is reviewed annually.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

	2018/19 £'000	2019/20 £'000
Revenue Funding provided to the Pooled Budget		
Darlington Borough Council	97	78
Better Care Funding	2,424	2,552
Darlington Clinical Commissioning Group	495	475
	3,016	3,105
Expenditure met from the Pooled Budget		
Darlington Borough Council	97	78
Better Care Funding	2,414	2,027
Darlington Clinical Commissioning Group	480	346
	2,991	2,451
Net (deficit)/surplus arising on the Pooled Budget during the year	25	654
The Revenue surplus has been carried forward to be funded from 2020/21 commitments within the BCF.		
Capital Funding provided to the Pooled Budget		
Better Care Funding	868	937
Expenditure	0	0
Net Surplus arising on the Pooled Budget during the year	868	937

22 Short Term Debtors

	As at 31 March 2019 £'000	As at 31 March 2020 £'000
Central government bodies	1,431	1,190
Other local authorities	4,333	3,004
NHS bodies	811	647
Other Entities and Individuals	19,377	19,216
Payments in Advance	3,215	2,405
Provision for Bad and Doubtful Debts	(5,700)	(6,324)
	23,467	20,138

23 Cash and Cash Equivalents

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

	As at 31 March 2019 £'000	As at 31 March 2020 £'000
Cash held by the Council	152	161
Bank current accounts / (Overdraft)	(1,329)	(5,698)
Short-term deposits	25,850	21,800
Total cash and cash equivalents	24,673	16,263

24 Short Term Creditors

	As at 31 March 2019 £'000	As at 31 March 2020 £'000
Central government bodies	(2,853)	(3,541)
Other local authorities	(2,740)	(2,031)
NHS bodies	(185)	(483)
Other entities and individuals	(24,211)	(26,028)
Total	(29,989)	(32,083)

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

25 Long Term Provisions

	Other £'000	Total £'000
Balance at 1 April 2018	(964)	(964)
Additional provisions made in 2019/20	(125)	(125)
Amounts used in 2019/20	0	0
Unused amounts reversed in 2019/20	0	0
Balance at 31 March 2020	(1,089)	(1,089)

Insurance Provision - The Council insures against the risk of claims in respect of personal injury and property loss. These risks are insured externally, however there is a £50,000 excess in respect of each and every claim on the liability policy. The balance of £1,088,708 on this account represents claims made and still outstanding as at 31 March 2020 which are within these excesses.

26 Leases

Council as Lessee

- Finance Leases

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

- Operating Leases

The Council has acquired vehicles, furniture and equipment under operating leases. Payments made during the year in respect of these leases amount to £0.558m (£0.459m in 2018/19).

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

	31 March 2019 £'000	31 March 2020 £'000
Not later than 1 year	347	464
Later than 1 year and not later than 5 years	481	845
Later than 5 years	0	85
	828	1,394

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

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

Council as Lessor

- Finance Leases

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

- Operating Leases

The Council leases various Land and Buildings to third parties under operating leases. The leases are primarily to provide suitable affordable accommodation for local businesses but also includes the lease of buildings that enable the delivery of community services such as Community Centres. During 2019/20 £0.621m (£0.531m in 2018/19) was received by the Council in relation to these leases.

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

	31 March 2019 £'000	31 March 2020 £'000
Not later than 1 year	531	615
Later than 1 year and not later than 5 years	1,671	1,462
Later than 5 years	6,516	6,609
	8,718	8,686

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

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

27 Contingent Liabilities

At 31 March 2020, the Council had the following contingent liabilities:

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

This scheme was triggered in November 2012 and Darlington Borough Council has paid £0.236m up to 31st March 2020. This represents 25% of claims paid by MMI excluding the first £0.050m of claims. During 2018/19 the Council commissioned a further actuarial report from a firm of advisors, independent of MMI, who estimate at this time that the clawback amount could be as much as 50% of all claims excluding the first £50,000, this could be as much as £0.472m. As a result the Council has a contingent liability of £0.236m, this being the 50% that the Council could be liable for less the amount paid over to MMI to date (£0.236m).

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

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

28 Usable Reserves

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

	31 March 2019 £'000	31 March 2020 £'000
General Fund	18,346	18,368
Earmarked Reserves	16,468	16,006
Housing Revenue Account	16,675	19,829
Schools Revenue Balances	945	817
Revenue Grant Unapplied	3,948	3,654
Capital Receipts Reserve	3,618	1,587
Capital Grants Unapplied	17,913	18,564
Total Usable Reserves	77,913	78,825

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

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

Housing Revenue Account - Resources available to meet future running costs for social housing.

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

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

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

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

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

29 Unusable Reserves

	31 March 2019 £'000	31 March 2020 £'000
Revaluation Reserve	37,268	40,139
Capital Adjustment Account	141,028	171,025
Financial Instruments Revaluation Reserve	(562)	(1,421)
Financial Instruments Adjustment Account	(17,781)	(17,334)
Pensions Reserve	(175,650)	(186,740)
Collection Fund Adjustment Account	(266)	(1,667)
Accumulated Absences Account	(506)	(611)
Total Unusable Reserves	(16,469)	3,391

Revaluation Reserve

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

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

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

	2018/19 £'000	2019/20 £'000
Balance at 1 April	36,537	37,268
Upward revaluation of assets	2,417	7,126
Downward revaluation of assets and impairment losses not charged to the Deficit/(surplus) on the Provision of Services	(1,163)	(3,745)
Surplus on revaluation of non-current assets not posted to the Deficit/(surplus) on the Provision of Services	1,254	3,381
Difference between fair value depreciation and historical cost depreciation	(462)	(466)
Accumulated gains on assets sold or scrapped	(61)	(44)
Amount written off to the Capital Adjustment Account	(523)	(510)
Balance at 31 March	37,268	40,139

Capital Adjustment Account (CAA)

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

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

	2018/19 £'000	2019/20 £'000
Balance at 1 April	134,608	141,028
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	(8,588)	(8,892)
Revaluation losses on Property, Plant and Equipment	(11,053)	(8,485)
Revaluation gains used to reverse previous revaluation losses	1,531	18,818
Revenue expenditure funded from capital under statute	(968)	(818)
Capital Expenditure classed as De-minimis	(87)	(48)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement.	(1,542)	(1,460)
	(20,707)	(885)
Adjusting amount written out of the Revaluation Reserve	462	466
Net written out amount of the cost of non-current assets consumed in the year	(20,245)	(419)
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	2,322	3,780
Use of the Major Repairs Reserve to finance new capital expenditure	0	0
Capital grants and contributions credited to the CIES that have been applied to capital financing	1,002	845
Application of grants to capital financing from the Capital Grants Unapplied Account	13,030	16,022
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	1,801	1,784
Capital expenditure charged against the General Fund and HRA balances	8,826	8,367
	26,981	30,798
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(316)	(382)
Balance at 31 March	141,028	171,025

Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when instruments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and gains are realised.

	2018/19 £'000	2019/20 £'000
Balance at 1st April	0	0
Transfer from Available-for-Sale Financial Instrument Reserve	(1,037)	0
Reversal of 2017/18 Pooled Investment Funds	1,037	0
Surplus on revaluation of Financial Instrument Revaluation Reserve	0	0
Financial Instruments held under Fair Value through Profit and Loss subject to MHCLG Statutory Over-ride *	(562)	(1,421)
Balance at 31st March	(562)	(1,421)

* The Ministry for Housing, Communities and Local Government (MHCLG) introduced a statutory over-ride to protect the General Fund balance from any fluctuations in fair value movements in quoted investment funds. The Council has 3 such property funds, namely CCLA, Hermes and Lothbury. This over-ride expires on 31 March 2023 and unless extended, all fair value movements will then impact upon the General Fund balance.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that is outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2020 will be charged to the General Fund over the next 42 years.

	2018/19 £'000	2019/20 £'000
Balance at 1 April	(174)	(17,781)
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(17,741)	0
Proportion of premiums incurred in previous financial years to be charged against the General Fund in accordance with statutory requirements	134	447
Balance at 31 March	(17,781)	(17,334)

Pensions Reserve

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

	2018/19 £'000	2019/20 £'000
Balance at 1 April	(168,400)	(175,650)
Actuarial (losses) / gains on pensions assets and liabilities	9,440	(300)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(23,720)	(18,280)
Employer's pension contributions and direct payments to pensioners payable in the year	7,030	7,490
Balance at 31 March	(175,650)	(186,740)

Collection Fund Adjustment Account

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

	2018/19 £'000	2019/20 £'000
Balance at 1 April	(552)	(266)
Amount by which council tax and non-domestic rates income credited to the CIES is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	286	(1,401)
Balance at 31 March	(266)	(1,667)

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

Accumulated Absences Account

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

	2018/19 £'000	2019/20 £'000
Balance at 1 April	(461)	(506)
Settlement or cancellation of accrual made at the end of the preceding year	461	506
Amounts accrued at the end of the current year	(506)	(611)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(506)	(611)
Balance at 31 March	(506)	(611)

30 Capital Expenditure and Capital Financing

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

	2018/19 £'000	2019/20 £'000
Opening Capital Financing Requirement	198,788	207,347
Capital Investment		
Property, Plant and Equipment	29,613	34,172
Investment Properties	5	36
Long Term Debtors	6,117	7,865
Revenue Expenditure Funded from Capital Under Statute	968	818
Other	87	48
Sources of Finance		
Capital receipts	(2,322)	(3,780)
Repayment of JV loans	(1,250)	0
Government grants and other contributions	(14,032)	(16,867)
Sums set aside from revenue:		
Direct revenue contributions	(8,826)	(8,367)
MRP/loans fund principal	(629)	(629)
Deferred liabilities movement	(1,172)	(1,155)
Closing Capital Financing Requirement	207,347	219,488
Explanation of movements in year		
Minimum Revenue Provision (MRP)	(1,801)	(1,784)
Increase in underlying need to borrowing (unsupported by government financial assistance)	10,360	13,925
Increase in Capital Financing Requirement	8,559	12,141

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

31 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20:

	2018/19 £'000	2019/20 £'000
Credited to Taxation and Non Specific Grant Income		
Capital Grants and Contributions	19,100	16,673
Local Authority Top Up Grant	7,019	7,180
Adult Social Care Grant	3,469	4,711
Revenue Support Grant	6,334	3,556
Covid-19 LA Support Grant	0	3,306
Business Rates Relief S31 Grant	1,639	2,844
New Homes Bonus	1,829	1,713
LA EU Exit Preparation Grant	105	210
Levy Account Surplus Grant	346	77
Local Services Support Grant	26	0
Other	140	331
Sub-total	40,007	40,601
Credited to Services		
Rent Allowances and Rent Rebates	32,491	28,320
Dedicated Schools Grant (DSG)	23,572	23,517
Public Health Grant	8,447	8,224
The Private Finance Initiative (PFI)	3,200	3,200
Strengthening Families Protecting Children	0	1,207
Pupil Premium	1,073	1,079
Access Fund for Sustainable Travel	658	842
Independent Living Fund	772	749
Housing Benefit and Localised Council Tax Support Administration Subsidy Funding	576	527
Winter Pressures	501	501
Adult Education Funding from Schools Funding Agency	741	431
Tackling Troubled Families	389	313
Routes to Work	159	259
Adult Education Funding from Tees Valley Combined Authority	0	254
Teachers Pension Grant	0	245
Youth Justice Grant	223	222
Universal Infant Free School Meals	251	217
16-19 Funding from Education Funding Agency	253	210
Discretionary Housing Payments	239	200
Syrian Resettlement Programme	251	192
Towns Fund	0	173
Future High Streets Fund	0	150
Skerningham Garden Community Villages	0	150
Burtree Garden Villages	0	150
Teachers Pay Grant	0	123
Universal Credit	0	100
NHS Healthy New Towns	355	0
NAAS Early Adopters Phase 2	117	0
Other	1,069	1,014
Sub-total	75,337	72,569
Total	115,344	113,170

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

	2018/19 £'000	2019/20 £'000
Capital Grants Receipts in Advance		
Developer Contribution	1,746	2,761
	1,746	2,761

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

32 Private Finance Initiative

Education PFI Scheme

2019/20 was year 15 of the Council's 25 year PFI scheme for the construction, maintenance and operation of four schools, the Education Village (a federation of schools comprising Springfield, Beaumont Hill and Haughton Schools) and Harrowgate Hill Primary School, which became operational in March 2006 and August 2005 respectively. The Education Village Schools converted to Academy status on 1 April 2012 under the provisions of the Academies Act 2010.

(1) Harrowgate Hill

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

(2) Education Village

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

Property, Plant and Equipment

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

Payments

The Council makes an agreed payment each year, part of which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2020 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total
	£'000	£'000	£'000	£'000
Payable in 2020/21	2,490	1,140	549	4,179
Payable within 2 to 5 years	10,597	4,447	1,658	16,702
Payable within 6 to 10 years	14,807	5,465	889	21,161
Payable within 11 to 15 years	1,328	446	21	1,795
Total	29,222	11,498	3,117	43,837

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

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

	2018/19 £'000	2019/20 £'000
Balance outstanding at start of year	13,825	12,653
Payments during the year	(1,172)	(1,155)
Balance outstanding at end of year	12,653	11,498

33 Members' Allowances

Details of the amounts paid to each Member of the Council are published annually and can be viewed on the Darlington Borough Council website. The total amount paid to Members in respect of basic, special responsibility and travel and subsistence allowance was £571,717 (2018/19 £602,659).

34 Trust Funds

Trust Funds administered by Darlington Borough Council are as follows:

	Balance at 1 April 2019 £'000	Receipts £'000	Payments £'000	Balance at 31 March 2020 £'000
BAT Legacy	72	0	0	72
Other	7	0	0	7
	79	0	0	79

Purpose of the Trust Funds:

BAT Legacy

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

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

35 Related Parties

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

Central Government

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

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2019/20 is shown in Note 33. Councillors are subject to the Council's Member Code of Conduct. The Register of Members' Interests and declarations of interests relating to specific items of discussion at meetings are available for inspection.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

During 2019/20, the Council had transactions with the following entities in which Members were deemed to have the potential to control or have significant influence over that entity;

	Expenditure		Income		Creditors		Debtors	
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000
Bike Stop Darlington Limited	58	0	0	0	(2)	0	0	0
Bishop Hogarth Educational Trust (formerly Carmel Education Trust)	22	36	0	0	(16)	0	0	0
Education Village Academy Trust	2,605	3,556	(1,184)	(1,904)	1	0	0	767
First Stop Darlington Limited	0	0	(1)	0	0	0	0	0
Hummersknott Academy Trust Limited	211	0	(76)	0	0	0	(10)	0
St Aidan's Chuech of England Academy	0	82	0	(48)	0	0	0	4
TOTAL	2,896	3,674	(1,261)	(1,952)	(17)	0	(10)	771

During 2019/20, the Council paid £3.113m (£3.695m in 2018/19) to and received £0.025m (£0.099m in 2018/19) from other entities in which Members declared an interest on their Members' Interest forms but in which they were not deemed to have the potential to control or have significant influence over those entities. At the end of the year the Council was owed £0.068m from these entities (£0.004m in 2018/19) and owed nil to these entities in 2019/20 (nil owed to these entities in 2018/19).

Senior Officers

The Council's senior managers may influence financial and operating policies through the professional advice to elected Members and through the management decisions they make under delegated powers. Such officers are subject to the Council's Employee Code of Conduct and professional bodies' standards. There are no related party transactions between the Council and its senior managers that require disclosure in 2019/20 (none in 2018/19).

Other Public Bodies

The Council received £5,418,175 (£5,136,802 in 2018/19) from the NHS. The Council paid £3,273,149 (£4,104,963 in 2018/19) to the NHS. At the year end there was £67,873 (£360,010 in 2018/19) owed to the NHS and there was £31,587 (£52,955 owed by in 2018/19) owed to the NHS.

Entities Controlled or influenced by the Council

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

Eastbourne Joint Venture Limited

This is a joint venture arrangement with Esh Homes Limited of which the Council owns 50% of the share capital of the Company. The Company was established to develop 60 homes on the former Eastbourne School land that was declared surplus in July 2016.

Heighington Joint Venture Limited

This is a joint venture arrangement with Esh Homes Limited of which the Council owns 50% of the share capital of the Company. The Company was established to develop 43 homes (including 9 affordable) at Heighington.

Middleton St George Joint Venture Limited

This is a joint venture arrangement with Esh Homes Limited of which the Council owns 50% of the share capital of the Company. The Company was established to develop 55 homes (including 5 affordable) at Middleton St George.

West Park

This is a joint venture arrangement with Esh Homes Limited of which the Council owns 50% of the share capital of the Company. The Company was established to develop 224 homes (including affordable) at West Park .

Durham Tees Valley Airport Limited (DTVA)

On 15 February 2019 the 89% shareholding of the company owned by Peel Investments (DTVA) Limited was acquired by Goosepool 2019 Limited. Goosepool 2019 Limited is a 75% subsidiary of Tees Valley Combined Authority. The Council holds 2.91% of the total shareholding in Goosepool 2019 Limited. For the year ended 31 March 2019, Durham Tees Valley Airport Limited made an operating loss of £5.725m (£1.994m for year ended 31 March 2018) and a loss of £4.291m after taxation (loss of £1.590m for the year ended 31 March 2018).

Further information regarding the Company's accounts can be obtained from its registered office at Cavendish House, Teesdale Business Park, Stockton on Tees, TS17 6QY.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

36 Pension Schemes Accounted for as Defined Contribution Schemes

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

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

In 2019/20, the Council paid £0.709m to Teachers' Pensions in respect of teachers' retirement benefits, representing an average of 20.52% of pensionable pay (the rate changed on 01/09/2019 from 16.48% to 23.68%). The figures for 2018/19 were £0.532m and 16.31%. There were no contributions remaining payable at the year-end.

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

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

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

In 2019/20 the Council paid £0.048m to the NHS Pension scheme in respect of former NHS staff retirement benefits, representing 17.24% of pensionable pay. The figures for 2018/19 were £0.045m and 17.24%. There were no contributions remaining payable at the year end.

37 Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Council participates in two post employment schemes.

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

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

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

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

Funding / Governance Arrangements of the LGPS

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

An actuarial valuation of the Fund was carried out at 31 March 2019 and as part of that valuation a new Rates and Adjustment Certificate has been produced for the three year period from 1 April 2020.

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

Assets

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

Transactions Relating to Post-Employment Benefits

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

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
• current service cost	(11,120)	(14,160)	0	0
• gains from settlements	(8,320)	0	0	0
Financing and Investment Income and Expenditure				
• net interest expense	(4,030)	(3,910)	(250)	(210)
Total Post Employment Benefit Charged to the Deficit/(Surplus) on the Provision of Services	(23,470)	(18,070)	(250)	(210)
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement				
• return on plan assets (excl the amount included in the net interest expense)	17,840	(28,420)	0	0
• actuarial losses arising on changes in financial assumptions	(27,200)	12,780	(180)	60
• actuarial gains/(losses) arising on changes in demographic assumptions	19,260	15,500	520	160
• actuarial gains/(losses) due to liability experience	(770)	(420)	(30)	40
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(14,340)	(18,630)	60	50
Movement in Reserves Statement				
• reversal of net charges made to the Deficit/(Surplus) on the Provision of Services for post employment benefits in accordance with the Code	23,470	18,070	250	210
Actual amount charged against the General Fund Balance for pensions in the year:				
• employers' contributions payable to the scheme	6,190	6,620		
• retirement benefits payable to pensioners			840	870

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement from 1 April 2009 to 31 March 2020 is a loss of £10.260m (to 31 March 2019 a loss of £9.960m).

Pensions Assets and Liabilities Recognised in the Balance Sheet

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000
Fair value of assets	335,480	311,940	0	0
Present value of funded defined benefit obligation	(501,820)	(490,290)	(9,310)	(8,390)
Net liability recognised on the balance sheet	(166,340)	(178,350)	(9,310)	(8,390)

Assets and Liabilities in Relation to Post Employment Benefits

Pension Scheme Assets comprised:

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

	Asset Split at 31 March 2019			Asset Split at 31 March 2020		
	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	50.6	0.0	50.6	46.9	0.2	47.1
Property	1.3	5.7	7.0	1.2	6.9	8.1
Government Bonds	25.7	0.0	25.7	28.5	0.0	28.5
Corporate Bonds	12.0	0.0	12.0	12.3	0.0	12.3
Cash	4.7	0.0	4.7	4.0	0.0	4.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
	94.3	5.7	100.0	92.9	7.1	100.0

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits	
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000
Opening defined benefit obligation balance at 1 April	(472,750)	(501,820)	(10,210)	(9,310)
Current service cost	(11,120)	(14,160)	0	0
Interest expense on defined benefit obligation	(12,150)	(11,930)	(250)	(210)
Contributions by scheme participants	(2,330)	(2,540)	0	0
Actuarial gains on liabilities - financial assumptions	(27,200)	12,780	(180)	60
Actuarial losses/(gains) on liabilities - demographic assumptions	19,260	15,500	520	160
Actuarial losses/(gains) on liabilities - experience	(770)	(420)	(30)	40
Net Benefits paid out	13,560	12,300	840	870
Past Service cost (inc curtailments)	(8,320)	0	0	0
Closing defined benefit balance at 31 March	(501,820)	(490,290)	(9,310)	(8,390)

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000
Opening fair value of assets balance at 1 April	314,560	335,480	0	0
Interest income on assets	8,120	8,020	0	0
Remeasurement (losses)/gains on assets	17,840	(28,420)	0	0
Contributions by the employer	6,190	6,620	840	870
Contributions by scheme participants	2,330	2,540	0	0
Net Benefits paid out	(13,560)	(12,300)	(840)	(870)
Closing fair value of assets balance at 31 March	335,480	311,940	0	0

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

The actual loss on scheme assets in the year was £20.400m (2018/19: gain of £25.960m).

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £186.740m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a reduction in the net worth from £267.036m to £83.296m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

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

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2021 is £7.740m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2021 are £0.880m.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by AonHewitt Limited, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2019.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2018/19	2019/20	2018/19	2019/20
Mortality assumptions:				
Longevity at 65 for current pensioners:				
• Men	22.6	22.2	22.6	22.2
• Women	24.1	24.2	24.1	24.2
Longevity at 65 for future pensioners (aged 45 at accounting date):				
• Men	24.3	23.2	n/a	n/a
• Women	25.9	25.8	n/a	n/a
Rate of Inflation (CPI)	2.2%	2.0%	2.2%	2.0%
Rate of increase in salaries	3.7%	3.0%	n/a	n/a
Rate of increase in pensions	2.2%	2.0%	2.2%	2.0%
Pension accounts revaluation rate	2.2%	2.0%	n/a	n/a
Rate for discounting scheme liabilities	2.4%	2.3%	2.4%	2.4%

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

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption	Decrease in Assumption
	£m	£m
Longevity (increase or decrease by 1 year)	16.18	(15.69)
Rate of increase in salaries (increase or decrease by 0.1% p.a.)	0.98	(0.98)
Rate of increase in pensions (increase or decrease by 0.1% p.a.)	8.83	(8.83)
Rate for discounting scheme liabilities (increase or decrease by 0.1% p.a.)	(9.81)	9.81

The liability calculated above includes an allowance for the McCloud/Sargeant judgement in line with last years valuation, as well as an allowance for full indexation on all Guaranteed Minimum Pension's (GMP).

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

38 Financial Instruments

Categories of Financial Instruments

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

	Long-term		Current	
	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000
Cash Equivalents Short Term Deposits (See Note 23)	0	0	24,673	16,263
Short Term Investments (Per Balance Sheet)	0	0	0	4,993
Loans and Receivables at amortised cost	0	0	0	21,256
Fair Value through Profit and Loss	29,437	28,578	0	0
Total Investments	29,437	28,578	0	21,256
Debtors				
Loans and Receivables	6,393	14,252	0	0
Financial assets carried at contract amounts (Debtors)	0	0	4,163	7,073
Total Debtors	6,393	14,252	4,163	7,073
Borrowings				
Financial liabilities (principal amount)	142,761	146,661	37,500	35,000
Add Accrued Interest	0	0	1,664	1,632
Less Other accounting adjustments	(34)	(31)	0	0
Financial Liabilities at amortised cost	142,727	146,630	39,164	36,632
Total Borrowings (Per Balance Sheet)	142,727	146,630	39,164	36,632
PFI and finance lease liabilities	11,498	10,358	1,155	1,140
Total other long term creditors (Per Balance Sheet)	11,498	10,358	1,155	1,140
Financial liabilities carried at contract amount	0	0	1,772	3,994
Total Creditors	0	0	1,772	3,994

Items of Income, Expense, Gains and Losses

	2018/19		2019/20	
	Surplus or Deficit on the Provision of Services £'000	Other Comprehensive Income and Expenditure £'000	Surplus or Deficit on the Provision of Services £'000	Other Comprehensive Income and Expenditure £'000
Net gains/(losses) on:				
Financial Assets measured at fair value through profit and loss	0	(562)	0	(1,421)
Financial Assets measured at fair value through other comprehensive income	0	0	0	0
Total gains / (losses)	0	(562)	0	(1,421)
Interest Income:				
Financial Assets measured at amortised cost	0	(1,807)	0	(2,433)
Other Financial Assets measured at fair value through other comprehensive income	0	0	0	0
Total interest income	0	(1,807)	0	(2,433)
Interest Expense	24,105	0	5,492	0

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

Fair Value of Financial Assets

Reclassification and remeasurement of financial assets at 1 April 2019

This note shows the effect of reclassification of financial assets following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting.

The Durham Tees Valley Airport (DTVA) shareholding is a strategic investment and not held for trading and therefore the Council has opted to designate it as fair value through Other Comprehensive Income. This means that there is no impact on the revenue budget and any gains or losses will be therefore transferred to the Financial Instruments Revaluation Reserve.

The Council holds a £30.000m pooled investment in 3 separate property funds and as a result of the change in accounting standards in 2018/19, under IFRS 9 the MHCLG have agreed a temporary override to allow Local Authorities time to adjust their portfolio of all pooled investments. The statutory override is for 5 years commencing 1 April 2018.

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

Financial assets measured at fair value				
Recurring fair value measurements	Input level in fair value Hierarchy	Valuation technique used to measure fair value	As at 31 March 2019 £'000	As at 31 March 2020 £'000
Fair Value through Profit and Loss				
Property Funds	Level 1	Unadjusted quoted prices in active markets for identical shares - Bid price	29,437	28,578

Fair Values of Assets and Liabilities

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

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

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

The fair values calculated are as follows:

	31 March 2019		31 March 2020	
	Carrying amount £'000	Fair Value £'000	Carrying amount £'000	Fair Value £'000
Financial Liabilities:				
PWLB Debt	119,061	165,423	129,061	200,922
Non PWLB debt	61,200	77,349	52,600	76,011
PFI Debt	12,653	15,937	11,498	14,878
Total Debt	192,914	258,709	193,159	291,811
Creditors	1,772	1,772	3,994	3,994

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31st March 2020) arising from a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loans of £200.922m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date which has been assumed as the PWLB new borrowing rates. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the Council will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £129.061m would be valued at £200.922m. But if the Council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge based on the redemption interest rates, an early redemption charge of £71.861m for the additional interest which will not now be paid. The exit price for the PWLB loans including the penalty charge would be £200.922m.

The fair value of the assets is greater than the carrying amount because the Council's portfolio of investments includes a fixed rate investment where the interest rate payable is higher than the rates available for similar investments in the market at the balance sheet date. This shows a notional future gain (based on economic conditions at 31st March 2020) arising from a commitment to receive interest from lenders above current market rates.

	31 March 2019		31 March 2020	
	Carrying amount £'000	Fair Value £'000	Carrying amount £'000	Fair Value £'000
Financial Assets				
Debtors	4,163	4,163	7,073	7,073

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

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

39 Nature and Extent of Risks Arising from Financial Instruments

Key Risks

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

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

Overall Procedures for Managing Risk

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

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

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

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 21 February 2019 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2019/20 was set at £326.023m. This was the maximum amount of external borrowings and other long term liabilities allowed. This was subsequently updated to £194.773m in the revised strategy.
- The Operational Boundary was expected to be £310.498m. This is the expected level of borrowing and other long term liabilities during the year. This was subsequently updated to £185.498m in the revised strategy.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 40% based on the Council's net debt.
- The maximum and minimum exposure to the maturity structure of debt are shown in the note relating to refinancing and maturity risk.

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

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

Credit Risk

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

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

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

The full Investment Strategy for 2019/20 was approved by full Council on xx February 2019 and is available on the Council's website.

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

	Amount at 31 March 2020	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2020	Estimated maximum exposure to default and uncollectability at 31 March 2020	Estimated maximum exposure at 31 March 2019
	£'000	%	%	£'000	£'000
Deposits with banks and Financial Institutions					
AAA rated counterparties	10,300	0.000	0	0	0
AA Rated Counterparties	0	0.000	0	0	0
Less than 1 year	10,000	0.024	0	0	0
1 to 2 years	0	0.000	0	0	0
A+ rated counterparties	6,500	0.004	0.090	276	0
UK Government backed Banks BBB+ rated	0	0.000	0.000	0	0
Trade debtors	7,073	0.000	0.00	0	0

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

The Council does not generally allow credit for customers, such that £5.393m of the £8.247m balance shown in the balance sheet as part of short term debtors is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31 March 2019 £'000	31 March 2020 £'000
Debts on Payment plans	1,229	1,149
Less than 3 months	126	1,136
3 to 6 months	184	318
6 months to 1 year	247	753
More than 1 year	918	2,037
	2,704	5,393

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

Liquidity Risk

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

The maturity analysis of financial assets is as follows:

	31 March 2019 £'000	31 March 2020 £'000
Less than 1 year	25,850	21,800
	25,850	21,800

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

Refinancing and Maturity Risk

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

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

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

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

	Approved Maximum Limits	31 March 2020	31 March 2019 £'000	31 March 2020 £'000
Less than 1 year	25%	19%	37,500	35,000
Between 1 and 2 years	40%	5%	10,000	9,750
Between 2 and 5 years	60%	9%	20,250	15,500
Between 5 and 10 years	80%	8%	13,000	14,832
More than 10 years	100%	59%	98,411	106,579
Total		100%	179,161	181,661

Market Risk

Interest Rate Risk

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

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

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

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

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

According to this assessment strategy, at 31 March 2020, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£'000
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	(168)
Impact on Surplus or Deficit on the Provision of Services	(462)
Share of overall impact debited to the HRA	(133)
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure) includes PFI contract.	98,651

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

Price Risk

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

The Council holds £28.578m of units in property funds that have been classified as Fair Value through Profit and Loss, however the Council has elected to use the 5 year override as allowed by CIPFA (and the Government) to allocate to Fair Value through Other Comprehensive Income, therefore any gains or losses on prices will be taken to the Financial Instrument Revaluation Reserve.

A general shift of 5% in the general price of units (positive or negative) would have resulted in a £1.429m gain or loss in the Financial Instrument Revaluation Reserve.

Foreign Exchange Risk

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

40 Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Assistant Director - Resources on 29 June 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

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

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

41 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 primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code), 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.

The Statement of Accounts has been prepared on a 'going concern' basis, which assumes that the functions of the Council will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which the Council operates. As a result of this, it would not therefore be appropriate for the financial statements to be provided on anything other than a going concern basis

The COVID 19 pandemic has had an unprecedented impact on the UK economy with substantial falls in Gross Domestic Product. The length and extent of the economic impact remains uncertain however the finances of all local authorities have been adversely affected and these effects are likely to continue post 2020/21. At the time of writing there is still some uncertainty regarding the impact of COVID 19 on the Council's finances and the amount of support which will be provided by central government. Grants to help with expenditure pressures totalling £7.174m have been received but the extent of a further grant to cover income losses is yet to be finalised, the best current estimate being in the region of £3.5m. The Council had a closing cash balance at the 31 March 2020 of £16.263m .

The pandemic has already put severe strain on the council's 2020/21 budget in terms of both lost income and increased expenditure. The latter relates to both the increased cost of maintaining the council's own services and the cost of responding to government initiatives aimed at alleviating the economic consequences of the pandemic. The reduction in income relates principally to the decline in fees and charges for services although it is anticipated that reduced collection rates for business rates and council tax will also have a negative impact on the council's finances.

It is also clear that the pandemic will have an adverse impact on the council's finances post 2020/21. Work to establish the overall impact on the council is continuing and a revised Medium Term Financial Plan (MTFP) will be presented to Cabinet in December 2020. This sets out the impact on the 2020/21 budget and it shows that the estimated additional pressures outweigh the additional government funding by an estimated £4m.

In the current MTFP the Council's strategy has been to balance the budget going forward with the use of reserves and that will continue. Any increase from the previously reported position for 2021/22 (£2m in March 2020) will be due to some of the income and expenditure pressures being forecast to extend into that year and the negative impacts on both Council Tax income (likely increased bad debts and an increase in Local Council Tax Support recipients which will affect the tax-base) and Business Rates income (increased non collection leading to a Collection Fund deficit which can be spread over the next 3 financial years together with a reduction in the rating base due to successful appeals and businesses moving out or closing down).

The mitigating factor underpinning the going concern assessment is that the Council continues to have available general fund balances above the current risk assessed minimum working balance of £4.350m. At the end of 2021/22 it is budgeted to be £14.065m which is £9.715m above the minimum level. Additionally, the Council's cash flow forecasts anticipate that cash balances will remain in a positive position for at least 12 months following the date of the audit opinion and do not forecast a need to borrow apart from replacing short term borrowing that will mature in the period. The Council has undertaken cash flow modelling through to November 2021 which demonstrates the Council's ability to work within its Capital Financing Requirement and cash management framework, with a minimum cash balance forecast during the period of £10m.

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:

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

- 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 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.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

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

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

f) Council Tax and Non-Domestic Rates

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

Accounting for Council Tax and NDR

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

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

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 an Expenditure line in the Comprehensive Income and Expenditure Statement. 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 benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

Post Employment Benefits

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

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

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

However, the arrangements for the teachers' and the NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Childrens' and Adults Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year as is the employer's contributions payable to the NHS Pension scheme in the year.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Durham County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (based on the indicative rate of return on high quality corporate bonds).
- The assets of Durham County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
 - current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
 - past service cost - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
 - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council - the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit 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.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

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 cashflow characteristics.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

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 and interest (ie 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 portfolio 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.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

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 is 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 (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.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

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 (see page 62). If any heritage assets are disposed of then the proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

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 reviewed its interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures against the criteria in the Code and concluded that there are such material interests that require the preparation of group accounts. In the Council's own single-entity accounts, the interest in companies and other entities are recorded as financial assets at cost, less any provision for losses.

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.

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.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

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.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

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);

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

- 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; and
- infrastructure - straight-line allocation over 30 years.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

Where an item of property, plant and equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Assets valued higher than £1m that are made up from different components and whose cost is significant in relation to the total cost of the item are depreciated on a component by component basis. The components used are host (structure), externals, services and roof. Once separated, depreciation is charged across each components useful life as appropriate.

Revaluations gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement. Gains in fair value are recognised only up to the amount of any 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.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

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, and
- 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.

Notes to the Financial Statements of Darlington Borough Council for Year ended 31 March 2020

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. 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:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in highest or best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 - 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.

Housing Revenue Account for Darlington Borough Council for the year ended 31 March 2020

HRA Income and Expenditure Statement

As at 31 March 2019		As at 31 March 2020	Notes
£'000		£'000	
	<u>Expenditure</u>		
(3,703)	Repairs and maintenance	(4,410)	
(5,700)	Supervision and management	(6,011)	
(50)	Rent, rates, taxes and other charges	(100)	
(321)	Increased provision for bad and doubtful debts	(327)	7
	<u>Depreciation of non-current assets:</u>		
(2,529)	On HRA dwellings	(2,891)	6
0	On Non-HRA dwellings	(10)	6
(250)	Impairment of Fixed Assets		3
(6,919)	Revaluation (Loss) / Gain on Fixed Assets	11,721	3
0	Revenue Expenditure funded from Capital under Statute	0	4
(21)	Debt management costs	(10)	
(19,493)	Total Expenditure	(2,038)	
	<u>Income</u>		
19,913	Dwelling rents	20,099	
414	Non-dwelling rents	492	
3,471	Charges for services & facilities	3,245	
717	Contribution towards Expenditure	692	
24,516	Total Income	24,528	
5,023	Net Expenditure or Income of HRA Services as included in the whole	22,490	
(239)	HRA Share of other amounts included in the whole Authority net costs of	(347)	
4,784	Net income for HRA Services	22,143	
	HRA Share of Operating income and expenditure included in the		
(2,528)	Interest Payable and Similar Charges	(2,418)	
55	Gain on sale on HRA non-current assets	48	
39	Interest and Investment Income	60	
(224)	Pension Interest Cost and Expected Return on Pension Assets	(214)	
2,126	Surplus for the Year on HRA Services	19,619	

Housing Revenue Account for Darlington Borough Council for the year ended 31 March 2020

Movement on the HRA Statement

As at 31 March 2019		As at 31 March 2020	As at 31 March 2020
£'000		£'000	£'000
13,334	Balance on the HRA at the end of the previous year		16,675
2,126	Surplus for the year on the HRA Income and Expenditure Statement	19,619	
	Adjustments between accounting basis and funding basis under		
(41)	Difference between amounts charged to Income and Expenditure for	(166)	
9,698	Difference between any other item of income and expenditure determined	(8,820)	
(629)	Voluntary set aside for debt repayment	(629)	
(8,826)	Capital expenditure funded by the HRA	(7,411)	
2,328	Net decrease before transfers to reserves	2,593	
	Transfers (to) or from earmarked reserves:		
831	Net charges made for retirement benefits in accordance with IAS19	951	
0	Other transfers from/(to) earmarked reserves	0	
(368)	Employer's contributions payable to the Durham County Council Pension	(390)	
463	Transfers from reserves	561	
2,791	Increase in year on the HRA		3,154
16,675	Balance on the HRA at the end of the current year		19,829

Notes to the Housing Revenue Account for Darlington Borough Council for the year ended 31 March 2020

1 Housing Stock

1 April 2019		31 March 2020
	<u>Number and types of dwellings</u>	
2,659	Houses	2,661
2,308	Flats	2,318
344	Bungalows	344
2	Non HRA	2
<u>5,313</u>	Total dwellings	<u>5,325</u>
	<u>Balance Sheet values</u>	
£000		£000
107	Land	52
152,552	Houses	175,302
363	Other property	411
<u>153,022</u>	Total net Balance Sheet value	<u>175,765</u>
	Operational Assets	
152,552	Dwellings	175,302
<u>0</u>	Other Land & buildings	<u>0</u>
152,552		175,302
470	Non-operational assets	463
<u>153,022</u>	Total net Balance Sheet value	<u>175,765</u>

2 Vacant Possession Values

The vacant possession value of dwellings as at 1 April in the financial year is £392.999m (£345.280m in 2018/19).

The vacant possession value of a property is defined as an opinion of the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of the valuation.

The vacant possession value most naturally relates to sale of a single owner-occupied dwelling. Therefore it must be adjusted to obtain the balance sheet or social housing value. The social value housing value reflects a valuation for a property if it were disposed of with sitting tenants enjoying sub-market rents and tenants' rights. Rents in the private sector reflect capital values quite well since they are market rents. Rents set by local authorities are unlikely to reflect the market position as they have been arrived at through a combination of historic practice and current policy.

The difference between the vacant possession value and the balance sheet value therefore shows the economic cost to the Government of providing council housing at less than open market value.

3 Impairment/Revaluation of Non-current assets

These charges occur where there is a material reduction in the value of a non-current asset during an accounting period. Impairment/revaluation charges of £11.721m (£7.169m in 2018/19) were charged to the Income and Expenditure Statement in 2019/20. This represents £0.294m (£0.250m in 2018/19) of capital expenditure incurred in the year that did not add value to the current housing stock valuation and £12.007m (£6.919m in 2018/19) following a re-valuation exercise carried out during the year.

Notes to the Housing Revenue Account for Darlington Borough Council for the year ended 31 March 2020

4 Revenue Expenditure funded from Capital under Statute

Capital expenditure in 2019/20 included expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets and has been charged as expenditure to the HRA Income and Expenditure Account. Grants received towards the cost of this expenditure can be regarded as revenue grants despite their classification as capital. In 2019/20 Revenue Expenditure funded from Capital under Statute was nil (nil in 2018/19), capital grants treated as revenue totalled nil (nil in 2018/19).

5 Capital Expenditure

Capital expenditure within the HRA during 2019/20 was as follows :

2018/19 £'000		2019/20 £'000
10,912	Houses	11,158
37	Other property	80
<u>10,949</u>	Total capital expenditure	<u>11,238</u>

Total capital expenditure on land, houses and other property within the HRA during 2019/20 was funded via the following sources:

2018/19 £'000		2019/20 £'000
550	Usable capital receipts	1,432
8,826	Revenue	7,411
1,558	Other Grant Funding	2,395
15	Capital Contribution	0
<u>10,949</u>	Total capital expenditure	<u>11,238</u>

A summary of total capital receipts from disposals is as follows :

2018/19 £'000		2019/20 £'000
1,616	Houses	1,497
<u>1,616</u>	Total capital receipts	<u>1,497</u>

6 Depreciation of Non-current Assets

Depreciation charges also form part of the New Financial Framework. They reflect the consumption of HRA assets over their useful life and are as follows:

2018/19 £'000		2019/20 £'000
2,529	Houses	2,891
	Vehicle, Plant & Equipment	10
<u>2,529</u>	Total charge for depreciation	<u>2,901</u>
	Operational Assets	
2,529	Dwellings	2,891
	Vehicle, Plant & Equipment	10
<u>2,529</u>	Total charge for depreciation	<u>2,901</u>

Notes to the Housing Revenue Account for Darlington Borough Council for the year ended 31 March 2020

7 Rent Arrears

Details of gross rent arrears, which include garages, heating and water charges are:

2018/19 £'000		2019/20 £'000
1,953	Gross rent arrears as at 31 March	1,817

A provision in respect of uncollectable rent debts is included in the consolidated balance sheet.

Year Ended 31 March 2019 £'000		Year Ended 31 March 2020 £'000
518	Opening provision for uncollectable debts	741
(98)	Amounts written off in the year	(52)
321	Increase in provision for the year	327
741	Closing provision for uncollectable debts	1,016

Collection Fund for Darlington Borough Council for the year ended 31 March 2020

2018/19		2019/20			Notes
		Council Tax	Non-domestic rates	Total	
Total					
£'000		£'000	£'000	£'000	
	<u>Income</u>				
(57,222)	Income from Council Tax	(60,070)	0	(60,070)	2
(34,006)	Income from Business Rates	0	(33,522)	(33,522)	3
	Contributions				
(821)	Darlington Borough Council	0	143	143	
(837)	Central Government	0	146	146	
(17)	County Durham and Darlington Fire & Rescue Authority	0	3	3	
(92,903)	Total Income	(60,070)	(33,230)	(93,300)	
	<u>Expenditure</u>				
	Precepts and demands				
63,913	Darlington Borough Council	49,670	16,885	66,555	
5,868	Office of the Durham Police and Crime Commissioner	6,747	0	6,747	
3,589	County Durham and Darlington Fire & Rescue Authority	3,402	344	3,746	
15,482	Central Government	0	15,886	15,886	
2,407	Transitional Protection payment - NNDR	0	1,294	1,294	
	Release of apportionment of Council Tax surplus				
0	Darlington Borough Council	0	0	0	
0	Office of the Durham Police and Crime Commissioner	0	0	0	
0	County Durham and Darlington Fire & Rescue Authority	0	0	0	
	Business rate				
144	Costs of collection	0	145	145	
	Impairment of Bad or Doubtful Debts / Appeals				
1,165	Write offs	1,188	261	1,449	
75	Movement in net provision	(51)	(176)	(227)	
(339)	Increase in Provision for Appeals	0	(46)	(46)	
92,304	Total Expenditure	60,956	34,593	95,549	
(599)	Collection Fund (surplus)/deficit for the year	886	1,363	2,249	
1,019	Collection Fund deficit balance b/fwd	172	248	420	
(599)	Collection Fund deficit/(surplus) for the year	886	1,363	2,249	
420	Collection Fund deficit balance c/fwd	1,058	1,611	2,669	
	Allocated to:				
265	Darlington Borough Council	878	789	1,667	
18	Office of the Durham Police and Crime Commissioner	120	0	120	
13	County Durham and Darlington Fire & Rescue Authority	60	16	76	
124	Central Government	0	806	806	
420		1,058	1,611	2,669	

Notes to the Collection Fund of Darlington Borough Council for year ended 31 March 2020

1 Collection Fund

In order to comply with the terms of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992), local authorities must maintain a separate Collection Fund. The purpose of the Collection Fund therefore, is to isolate the income and expenditure relating to Council Tax and National Non-domestic Rates.

The Collection Fund is an agent's statement that reflects the statutory obligations for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates (NNDR).

2 Income From Council Tax

The Council Tax is a tax based on property bandings (A to H).

There is a basic tax for the middle band (Band D) with proportionately higher and lower taxes for the other bands.

The Council's tax base i.e. the number of chargeable dwellings in each band (adjusted for discounts and exemptions) and converted to an equivalent number of Band D dwellings was calculated as follows and approved by Full Council in January 2019:

Band	A	B	C	D	E	F	G	H
Chargeable Dwellings	9,867	6,641	5,562	5,036	3,425	1,648	865	66
Ratio	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9

The Council set a basic council tax in 2019/20 of £1,505.64 (£1,461.93 in 2018/19), being the amount payable in respect of properties in Band D for services provided by Darlington Borough Council.

The Office of the Durham Police, Crime and Victims' Commissioner set a Band D council tax in 2019/20 of £205.24 (£181.24 in 2018/19) for their services.

County Durham and Darlington Fire & Rescue Service set a Band D council tax in 2019/20 of £103.50 (£100.53 in 2018/19) for their services.

A small additional charge is also payable in respect of parish council services in certain areas of the borough.

3 Income Collectable From Business Rate payers

Under the national system for non-domestic rates, the Council collects from local businesses an amount equal to the rateable value of their property multiplied by a uniform rate set by the Government. In previous financial years the total amount due, less certain allowances, was paid to a central pool (the NNDR pool) administered by Central Government, which in turn, paid to Local Authorities their share of the pool, such shares being based on a standard amount per head of the local adult population.

The Council retains 49% with the remainder distributed to Central Government (50%) and the other 1% to the County Durham Fire & Rescue Authority.

Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive their baseline amount. Tariffs due from authorities payable to Central Government are used to finance the top ups to those authorities who do not achieve their targeted baseline funding. Darlington is a top up authority and in 2019/20 it received a grant of £7.180m.

Notes to the Collection Fund of Darlington Borough Council for year ended 31 March 2020

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by the Valuation Office and hence business rates outstanding as at 31 March 2020. As such authorities are required to make a provision for these amounts in the same proportion as the precepting shares (49:50:1). In 2019/20 the total provision was reviewed and due to a reduction in the 2010 valuation of £0.044m it reduced to £1.768m, a total reduction of £0.044m (no reduction in 2017 valuation).

The total national non-domestic rateable value at 31st March 2020 was £85.661m (£85.090m in 2018/19). The non-domestic rating multiplier for 2019/20 was 50.4p per £ (49.3p per £ in 2018/19) and the small business non-domestic rating multiplier for 2019/20 was 49.1p per £ (48.0p per £ in 2018/19).

Group Accounts of Darlington Borough Council as at 31 March 2020

Group Accounts

Introduction

The CIPFA Code of Practice requires that where a Council has material financial interests and significant level of control over one or more entities, it should prepare group accounts. The aim of these statements is to give an overall picture of the Council's financial activities and the resources employed in carrying out those activities.

The Group Accounts show the full extent of the Council's wider assets and liabilities. Whilst the Group Accounts are not primary statements, they provide transparency and enable comparison with other entities that have different corporate entities.

Joint Venture

"A joint venture is a joint arrangement whereby the parties that have joint control of the arrangements have rights to the net assets of the arrangement".

The Council has a number of joint venture arrangements with Esh who is a house building developer and these arrangements have been incorporated into the group accounts of the Council. These comprise the following:

- Eastbourne JV Limited
- Heighington JV Limited
- Middleton St George JV Limited
- West Park JV Limited

The objective of the joint ventures is first and foremost to develop various sites within the borough with a view to providing housing (including affordable housing) and secondly to provide the Council with an income stream to supplement its resources.

The Council's share of all of the joint ventures is 50% and each joint venture is registered as a separate entity in its own right with each of the shareholders having equal rights to the profits (or losses) of each entity.

The Group Accounts include the following:

- Group Movement in Reserves - shows the movement in the year on the Council's single entity usable and unusable reserves together with the Council's share of the Group reserves.
- Group Comprehensive Income and Expenditure Statement - summarises the resources that have been generated and consumed in providing services and managing the Group during the year.
- Group Balance Sheet - summarises the financial position of the Council and its joint ventures as a whole. It shows the value of the group assets and liabilities at the end of the financial year.
- Group Cash Flow Statement - shows the changes in cash and cash equivalents of the Group during the year

Group Accounting Policies

The joint ventures have prepared their financial statements in compliance with the United Kingdom Accounting Standards, including Financial Reporting Standard 102. This gives the entity certain disclosure exemptions, subject to certain conditions, but this doesn't materially effect the Council's Group Accounts.

Group Movement in Reserves Statement for Darlington Borough Council for year ended 31 March 2020

	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000	Authority's share of the reserves of joint ventures £'000	Total Council Reserves (Group Accounts) £'000
RESTATED										
Balance at 31 March 2018	(20,763)	(15,693)	(13,884)	(3,919)	(11,843)	(66,102)	(521)	(66,623)	0	(66,623)
<u>Movement in reserves during 2018/19</u>										
Deficit/(Surplus) on the Provision of Services	17,567	0	(1,694)	0	0	15,873	0	14,179	0	14,179
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	(10,694)	(10,694)	(338)	(11,032)
Total Comprehensive Income and Expenditure	17,567	0	(1,694)	0	0	15,873	(10,694)	5,179	(338)	4,841
Adjustments between accounting basis and funding basis under regulations (Note 5)	(20,818)	0	(1,097)	301	(6,070)	(27,684)	27,684	0	0	0
Net (Increase)/decrease before Transfers (to)/from Earmarked Reserves	(3,251)	0	(2,791)	301	(6,070)	(11,811)	16,990	5,179	(338)	4,841
Transfers from/(to) Earmarked Reserves (Note 6)	5,668	(5,668)	0	0	0	0	0	0	0	0
Decrease/(Increase) in 2018/19	2,417	(5,668)	(2,791)	301	(6,070)	(11,811)	16,990	5,179	(338)	4,841
Balance at 31 March 2019 carried forward	(18,346)	(21,361)	(16,675)	(3,618)	(17,913)	(77,913)	16,469	(61,444)	(338)	(61,782)
<u>Movement in reserves during 2019/20</u>										
Deficit/(Surplus) on the Provision of Services	1,928	0	(19,619)	0	0	(17,691)	0	(17,691)	0	(17,691)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	(4,161)	(4,161)	670	(3,491)
Total Comprehensive Income and Expenditure	1,928	0	(19,619)	0	0	(17,691)	(4,161)	(21,852)	670	(21,182)
Adjustments between accounting basis and funding basis under regulations (Note 5)	(1,066)	0	16,465	2,031	(651)	16,779	(16,779)	0	0	0
Net (Increase)/decrease before Transfers (to)/from Earmarked Reserves	862	0	(3,154)	2,031	(651)	(912)	(20,940)	(21,852)	670	(21,182)
Transfers (to)/from Earmarked Reserves (Note 6)	(1,361)	1,361	0	0	0	0	0	0	0	0
(Increase)/decrease in 2019/20	(499)	1,361	(3,154)	2,031	(651)	(912)	(20,940)	(21,852)	670	(21,182)
Balance at 31 March 2020 carried forward	(18,845)	(20,000)	(19,829)	(1,587)	(18,564)	(78,825)	(4,471)	(83,296)	332	(82,964)

**Group Comprehensive Income and Expenditure Statement for Darlington Borough Council for
year ended 31 March 2020**

RESTATED 2018/19				2019/20			
Gross Expenditure £'000	Gross Income £'000	Net Expenditure / (Income) £'000		Note	Gross Expenditure £'000	Gross Income £'000	Net Expenditure / (Income) £'000
121,345	(57,533)	63,812	Children & Adult Services	3	121,267	(58,141)	63,126
111,801	(84,251)	27,550	Economic Growth & neighbourhood Services	3	87,722	(79,683)	8,039
7,329	(1,586)	5,743	Resources	3	7,727	(3,404)	4,323
993	(2,197)	(1,204)	Other	3	1,819	(150)	1,669
241,468	(145,567)	95,901	Cost of Services		218,535	(141,378)	77,157
937	0	937	Other operating expenditure	7	700	0	700
1,604	(2,747)	(1,143)	Losses/(Gains) on the disposal of non-current	7	1,504	(2,218)	(714)
28,350	(3,797)	24,553	Financing and investment income and expenditure	9	10,987	(3,885)	7,102
0	(104,375)	(104,375)	Taxation and non-specific grant income	10	0	(101,936)	(101,936)
272,359	(256,486)	15,873	(Surplus)/deficit on Provision of Services		231,726	(249,417)	(17,691)
	(338)		Joint ventures accounted for on an equity basis				670
	(1,298)		Surplus on revaluation of Property, Plant and Equipment assets				(4,469)
	(9,440)		Actuarial losses on pensions assets/liabilities	37			300
	44		Impairment losses on non-current assets charged the revaluation reserve				8
	(11,032)		Other Comprehensive Income and Expenditure				(3,491)
	4,841		Total Comprehensive Income and Expenditure				(21,182)

**Group Balance Sheet of Darlington Borough Council as at
31 March 2020**

RESTATED		As at 31
As at 31		March 2020
March 2019		£'000
£'000		£'000
367,019	Property, Plant and Equipment	405,304
8,639	Investment Properties	8,293
3,483	Heritage Assets	3,769
29,437	Long Term Investments	28,578
338	Investments in joint ventures	(332)
6,393	Long Term Debtors	14,252
<hr/>		<hr/>
415,309	Total Long Term Assets	459,864
0	Short Term Investments	4,993
679	Inventories	286
23,467	Short Term Debtors	20,138
24,673	Cash and Cash Equivalents	16,263
280	Assets Held For Sale	280
<hr/>		<hr/>
49,099	Total Current Assets	41,960
(39,164)	Short Term Borrowing	(36,632)
(29,989)	Short Term Creditors	(32,083)
(888)	Short Term Provisions	(2,567)
<hr/>		<hr/>
(70,041)	Total Current Liabilities	(71,282)
(11,498)	Long Term Creditors	(10,358)
(964)	Long Term Provisions	(1,089)
(142,727)	Long Term Borrowing	(146,630)
(175,650)	Other Long Term Liabilities	(186,740)
(1,746)	Capital Grants Receipts In Advance	(2,761)
<hr/>		<hr/>
(332,585)	Total Long Term Liabilities	(347,578)
<hr/>		<hr/>
61,782	Net Assets	82,964
<hr/>		<hr/>
77,913	Usable Reserves	78,825
338	Usable Reserves - Group Accounts	(332)
(16,469)	Unusable Reserves	4,471
<hr/>		<hr/>
61,782	Total Reserves	82,964
<hr/>		<hr/>

Group Cash Flow Statement for Darlington Borough Council for year ended 31 March 2020

2018/19		2019/20
£'000		£'000
(15,873)	Surplus/(deficit) on the provision of services	17,691
28,627	Adjustments to net surplus on the provision of services for non-cash	9,660
(21,842)	Adjustments for items included in the net (deficit) on the provision of services that are investing and financing activities	(18,887)
(9,088)	Net cash flow from Operating Activities	8,464
	Investing Activities	
(29,618)	Purchase of property, plant and equipment and investment property	(34,208)
(149,398)	Purchase of short term and long term investments	(156,980)
150,830	Proceeds from the sale of short term investments	151,980
2,747	Proceeds from the sale of property, plant and equipment and investment property	2,217
18,361	Capital grants received	17,688
(7,078)	Net cash flow from Investing activities	(19,303)
	Financing Activities	
37,505	Cash receipts of short and long term borrowing	30,003
(223)	Billing Authorities - Council Tax and NNDR adjustments	(376)
(1,172)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-Balance Sheet PFI contracts	(1,155)
(18,500)	Repayments of short and long term borrowing	(28,600)
20	Other payments for financing activities	2,557
17,630	Net cash flow from Financing Activities	2,429
1,464	Net decrease in cash and cash equivalents	(8,410)
23,209	Cash and cash equivalents at the beginning of the reporting period	24,673
24,673	Cash and cash equivalents at the end of the reporting period (Note 23)	16,263

Independent Auditor's report to the Members of Darlington Borough Council

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Accounting Period

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April and ending as at the balance sheet date, 31 March.

Accruals

The concept that income and expenditure is accounted for as it is earned or incurred, not as money is received or paid.

Accounting Policies

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- recognising
- selecting measurement bases for, and
- presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements.

Actuarial Gains and Losses

Actuaries assess financial and non-financial information provided by the Pension Authority to project levels of future pension fund requirements. For a defined benefit pension scheme, the changes in actuarial deficits or surpluses can arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or
- the actuarial assumptions have changed.

Agency

The provision of a service by an authority on behalf of another authority, which is legally responsible for providing that service. The responsible authority reimburses the authority providing the service in the first instance.

Asset

An item owned by the Council, which has a monetary value. Assets are defined as current or non-current.

- Current assets will be consumed or cease to have value within the next financial year, e.g. stocks and debtors;
- Non-current assets provide benefits to the Council and to services it provides for a period of more than one year, for example, land, buildings, vehicles and equipment;
- intangible assets are non-financial fixed assets, such as software licences, that do not have physical substance but are identifiable and are controlled through custody or legal rights.

Associate

An entity other than a subsidiary or joint venture in which the reporting authority has a participating interest and over whose operating and financial policies the reporting authority is able to exercise significant influence.

Audit

An independent examination of the Council's activities, either by internal audit or the Council's external auditor, who are Ernst & Young LLP.

Authorised Limit

This represents the legislative limit on the Council's external debt under the Local Government Act 2003.

Balance Sheet

A statement of the recorded assets, liabilities and other balances at the end of an accounting period.

Glossary of Darlington Borough Council

Balances

The capital or revenue reserves of the Council made up of the accumulated surplus of income over expenditure on the General fund or any other fund.

Budget

The forecast of the net revenue and capital expenditure over the accounting period. Members approve budgets, based on policies, linked to the corporate plan.

Capital Adjustment Account

This account accumulates the write-down of the historical cost of Property, Plant and Equipment as they are consumed by depreciation and impairments or written off on disposal. It accumulates the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded by capital under statute). The balance on the account thus represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

Capital Charges

A charge to services for the use of non-current assets, which comprises:

- a capital financing charge equivalent to notional interest on the net value of the assets; and
- a depreciation charge based on the remaining finite life of the asset.

Capital Expenditure

Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period or, expenditure which adds to an existing non-current asset.

Capital Financing

The raising of money to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contribution, revenue reserves and earmarked reserves.

Capital Financing Requirement

The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code. This measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimate of any additional capital financing requirement for the current and the next two financial years.

Capital Grants

Grants received toward capital expenditure on a particular service or project.

Capital Receipts

The proceeds from the disposal of land or other capital assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the Government, but they cannot be used for revenue purposes.

Carry-forwards

Unspent revenue budgets which, upon approval, services can use in future years.

Carrying Amount

The Balance Sheet value recorded of either an asset or liability.

CIPFA

The Chartered Institute of Public Finance and Accountancy. This is the professional institute governing how public money is used and how it has to be reported.

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CoP - 'Code of Practice on Local Authority accounting in the United Kingdom'

The Code of Practice specifies the principles and practices of accounting required to prepare a Statement of Accounts which 'presents fairly' the financial position and transactions of a local authority.

Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and NDR and its distribution to other local government bodies and Central Government.

Community Assets

This is a category of Property, Plant and Equipment that the Council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Consistency

The concept that the accounting treatment of like items within an accounting period and from one period to the next are the same.

Contingency

A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain events.

Contingent Asset

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

Contingent Liability

A condition which exists at the balance sheet date, which may arise in the future but where the outcome will be confirmed only on the occurrence or non-occurrence of one or more future events.

Corporate and Democratic Core (CDC)

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Council Tax

This is a banded property tax which is levied on domestic properties throughout the Borough. The banding is based on estimated property values as at 1 April 1991.

Council Tax Requirement

This is the estimated revenue expenditure on General Fund services that needed to be financed from the Council Tax after deducting income from fees and charges, certain specific grants and any funding from reserves.

Creditor

Amounts owed by the Council for works done, goods received or services rendered before the end of the accounting period but for which payments have not been made by the end of that accounting period.

Current Service Costs (Pensions)

The increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

Curtailement

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Curtailments will show the cost of the early payment of pension benefits if any employee has been made redundant in the previous year.

Debt Outstanding

Amounts borrowed to finance capital expenditure that are still to be repaid.

Debtor

Amounts due to the Authority for works done, goods received or services rendered before the end of the accounting period but for which payments have not been received by the end of that accounting period.

Deferred Capital Receipts

These represent capital income still to be received after disposals have taken place and wholly consists of principal outstanding from the sale of council houses.

Deferred Charges

Expenditure of a capital nature, met from borrowing, but where there is no tangible asset, e.g. improvement grants. This includes loans outstanding on assets sold in cases where the sale proceeds were used for new capital investment.

Defined Benefit Pension Scheme

Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investment of the scheme.

Defined Contribution Scheme

A Defined Contribution Scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all of the employee benefits relating to employee service in the current and prior periods.

Depreciation

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

Discretionary Benefits (Pensions)

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers such as The Local Government (Discretionary Payments) Regulations 1996.

Earmarked Reserves

The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

Entity

A body that is delivering a service, or carrying on a trade or business, with or without a view to profit.

Estimation Techniques

The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accountancy policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- methods of depreciation, such as straight line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period; and
- different methods used to estimate the proportion of debts that will not be recovered,

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particularly where such methods consider a population as a whole rather than individual balances.

Exceptional Items

Material items that derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Expected Return on Pension Assets

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Expenditure

Amounts paid by the Council for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment, as expenditure is deemed to have been incurred once the goods or services have been received, even if they have not yet been paid for.

Extraordinary Items

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items, nor do they include prior period items merely because they relate to a prior period.

Events after the Balance Sheet Date

Events after the balance sheet date are those events, favourable or unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives.

Fixed Assets

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

General Fund

This is the main revenue fund of the Council and includes the net cost of all services financed by local taxpayers and Government Grants.

Going Concern

The concept that the statement of accounts are prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

Government Grants

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Grants made by the Government towards either revenue or capital expenditure to support the cost of the provision of the Council's services. These grants may be specifically towards the cost of particular schemes or to support the revenue spend of the Council.

Heritage Assets

An asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Housing Act Advances

Loans made by an authority to individuals or Housing Associations towards the cost of constructing, acquiring or improving dwellings. Loans to individuals are termed mortgages.

Housing Benefits

A system of financial assistance to individuals toward certain housing costs administered by authorities and subsidised by Central Government.

Housing Revenue Account (HRA)

A statutory account maintained separately to the General Fund. It includes all revenue expenditure and income relating to the provision, maintenance and administration of council housing and associated areas.

IFRS

Defined Accounting Standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

Impairment

A reduction in the value of a non-current asset, below its carrying amount on the balance sheet.

Income

Amounts which the Council receives or expects to receive from any source, including fees, charges, sales and grants.

Income and Expenditure Account

The revenue account of the Council that reports the net cost for the year of the functions for which it is responsible, and demonstrates how that cost has been financed from precepts, grants and other income.

Infrastructure Assets

A class of fixed assets belonging to the Council whose life is of indefinite length and which are not usually capable of being sold. Examples include roads, highways, footpaths, bridges and water facilities.

Intangible Assets

These are non-financial fixed assets, such as software licences, that do not have physical substance but are identifiable and are controlled by custody or legal rights.

Interest Cost (Pensions)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to the settlement.

IAS 1 - Presentation of Financial Statements

The objective of this Standard is to prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the Council's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

IAS 7 - Cash Flow Statements

The objective of this standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities.

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IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in IAS 1 Presentation of Financial Statements.

IAS 16 - Property, Plant and Equipment

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

IAS 17 - Leases

The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases.

IAS 19 - Employee Benefits

The objective of this Standard is to prescribe the accounting treatment and disclosure requirements for employee benefits. The Standard requires an entity to recognise:

- (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- (b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

IAS 24 - Related Party Disclosures

The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit and loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

IAS 32 Financial instruments: Presentation

The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities should be offset.

IAS 36 - Impairment of Assets

The objective of this Standard is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognise an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets

The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount.

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Inventories

Items of raw materials and stores the Council has produced to use on a continuing basis and which it has not yet used. Examples are consumable stores, raw materials and components purchased for incorporation into products for sale.

Investments (Pension Fund)

The investments of the Pension Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

Investments - Long Term

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can be clearly demonstrated or where there are restrictions as to the investors ability to dispose of the investment.

Investment Properties

Interest in land and/or buildings in respect of which construction work and development have been completed, and which is held for its investment potential.

Joint Venture

An entity in which the reporting authority has an interest on a long-term basis and is jointly controlled by the reporting authority and one or more other entities under a contractual or other binding arrangement.

Liability

A liability is where an authority owes payment to an individual or another organisation:

- A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.
- A deferred liability is an amount which, by arrangement is payable beyond the next year at some point in the future, or to be paid off by an annual sum over a period of time.

Lender Option Borrower Option (LOBO)

The common feature of these loans is a reduced interest rate for an initial period and then a stepped increase to the end of the term. The lender can opt to increase the interest rate payable at the end of the initial period. If the lender opts to increase the interest rate payable above the fixed rate then the borrower can either agree to this increase and continue to repay the loan up to the maturity date or can reject the new terms and repay the loan in full (without penalty). The inclusion of options within LOBO's means the loans effectively become variable rate instruments and under FRS 4, interest should be averaged over the period to the earliest date at which the instrument would be redeemed or cancelled on exercise of such an option rather than the original term of the instrument where there is uncertainty over the term of the instrument.

Loans Outstanding

The total amounts borrowed from external lenders for capital and temporary revenue purposes but not repaid at the balance sheet date.

Materiality

The concept that the Statement of Accounts should include all amounts which, if omitted or mis-stated, could be expected to lead to distortion of the financial statements to a reader of the statements.

Minimum Revenue Provision (MRP)

Represents the minimum amount that must be charged to a revenue account in each financial year to repay external borrowings.

Net Book Value

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The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amount provided for depreciation and any impairment losses.

Net Current Replacement Cost

The cost of replacing an asset in its existing condition and use.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

National Non-Domestic Rates (NNDR)

NNDR Poundage is set annually by Central Government based on the assessed value of properties used for business purposes and is collected by charging authorities. The proceeds are redistributed by the Government in accordance with the new business rates retention scheme.

Net Worth

The Council's value of total assets less total liabilities.

Non-Distributed Costs

These are overheads for which no user now benefits and as such are not apportioned to services.

Non-Operational Assets

Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. Examples of Non-Operational Assets are investment properties and assets that are surplus to requirements pending sale or development.

Operating Lease

An agreement in which the Council derives the use of an asset in exchange for rental payments, but where the risks and rewards of ownership are not transferred.

Operational Assets

Fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has a statutory or discretionary responsibility.

Past Service Costs (Pensions)

For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or the improvement to, retirement benefits.

Pension Scheme Liabilities

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Post Balance Sheet Events

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Precept

The levy made by precepting authorities on billing authorities, requiring the latter to collect income from council taxpayers on their behalf e.g. Police Authority, Fire Authority and Parish Councils.

Prior Year Adjustment

Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

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Private Finance Initiative (PFI)

PFI's are a method of funding/acquiring assets such as schools, but the supplier of the building is usually an agreed contractor or bidder, usually over a 25 year term. The Council pays for the use of the asset by means of a unitary charge and can acquire the asset after the term if included in the terms of the contract. Up until this point the Council does not own the asset and simply pays for the use of the asset. Government grant is available to assist authorities who enter into these agreements, however, known as PFI credits. These have a direct impact upon the level of government grant paid each year to help pay for the schemes.

Projected Unit Method

An accrued benefits valuation method in which the pension scheme liabilities make allowance for projected earnings. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

Property, Plant & Equipmnet (PPE)

Assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles

Provision

An amount put aside in the accounts for liabilities or losses which have occurred but uncertainty surrounds the exact amounts involved or the dates on which they will arise.

Provision for Credit Liabilities

This represents the sum set aside for the repayment of debt. This provision is subsumed within the capital financing reserve.

Prudence

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Prudential Framework

One of the principal features of the Local Government Act 2003 was to provide the primary legislative requirements to introduce a new prudential regime for the control of Local Authority capital expenditure. The regime relies upon both secondary legislation in the form of regulations, and a prudential code which has been published by CIPFA.

Under the prudential framework local authorities are free to borrow without specific government consent if they can afford to service the debt without extra government support. The basic principle is that authorities will be free to invest as long as their capital spending plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs all authorities must follow the prudential code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the Council before the start of the relevant financial year as part of their budget setting process.

Public Works Loan Board (PWLB)

This is a Central Government Agency which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the Government itself can borrow.

Rateable Value

The annual assumed rental value of a hereditament, (inheritable property), which is used for NDR purposes.

Related Parties

Two or more parties are related, when at any one time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party might be inhibited from pursuing at all times its own separate interests; or

Glossary of Darlington Borough Council

- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Related Party Transactions

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund;
- the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- the provision of services to a related party, including the provision of pension fund administration services;
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as council tax, rents and payments of benefits.

The materiality of related party transactions is judged not only in terms of their significance to the Council, but also in relation to its related party.

Remuneration

Includes taxable salary payments to employees less employees' pensions contributions, together with non-taxable payments when employment ends, taxable expense allowances and any other taxable benefits.

Reserves - Usable

The accumulation of surpluses, deficits and appropriations over past years. Useable Reserves of a revenue nature can be released to spend on services or added to for future spending on services.

Reserves - Unusable

Unuseable reserves are reserves that in simple terms balance the Council's Balance Sheet and cannot be released to spend on services e.g. the Revaluation Reserve records the effect of revaluing fixed assets and is not available for general use in the financing of capital expenditure.

Residual Value

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

Revaluation Reserve

This Reserve records the accumulated gains on the fixed assets held by the Council arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).

Revenue Balances

These are accumulated surpluses on the General Fund. They can be applied to reduce borrowing, reduce council tax, or held to be applied in future years.

Revenue Contributions

The method of financing capital expenditure directly from revenue. The Council may determine that certain capital schemes should be financed in this way or alternatively may include a prescribed sum in the revenue budget for this purpose.

Revenue Expenditure

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The day-to-day expenses of providing services. It is usually of a constantly recurring nature and produces no permanent asset, e.g. salaries, wages, supplies and services, and debt charges.

Revenue Expenditure Funded by Capital Under Statute (REFCUS)

Items of capital expenditure, which do not result in, or remain matched by, tangible fixed assets. Revenue Expenditure funded by Capital under Statute is charged to revenue in the year in which the expenditure is incurred.

Revenue Support Grant

This is a Central Government grant to authorities, contributing towards the cost of their services. It is based on the Government's assessment of how much an authority needs to spend to provide a standard level of service.

SeRCOP

CIPFA's Service Reporting Code of Practice establishes proper practices with regard to consistent financial reporting for services in England and Wales. It is given legislative backing by regulations which identify the accounting practices it propounds as proper practice under the Local Government Act 2003. It aims to:

- a) Modernise the system of local authority accounting and reporting to meet the changed and changing needs of local government, particularly the duty of to secure and demonstrate Best Value in the provision of services to the community;
- b) Facilitate accurate comparison between both services and authorities;
- c) Strengthen the arrangements for recharging all support costs which may be reasonably charged to front-line services and in so doing bringing efficiency pressures to support services comparable to those of service providers to the community; and
- d) Represent best practice.

Scheme Liabilities

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Specific Grants

Government grants to Local Authorities in aid of particular services.

Temporary Borrowing / Investment

Money borrowed or invested for an initial period of less than one year.

Total Cost

The total cost of a service or activity includes all costs which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, support services and overheads, which need to be apportioned.

Trust Funds

Funds administered by the Council for such purposes as charities and specific projects.

Unapportionable Central Overheads

These are overheads for which no user now benefits and should not be apportioned to services.

Useful Life

The period over which the Local Authority will derive benefits from the use of a fixed asset.

Work In Progress

The cost of work done on an uncompleted project at the balance sheet date, which should be accounted for.

A copy of the Statement of Accounts is available on the Council's website on www.darlington.gov.uk

**AUDIT COMMITTEE
18 NOVEMBER 2020**

ITEM NO.

ANNUAL GOVERNANCE STATEMENT

Purpose of Report

1. To approve the Council's draft Annual Governance Statement.

Information and Analysis

2. The Accounts and Audit Regulations 2015 require local authorities to prepare, approve and publish, each year, an Annual Governance Statement (AGS). These regulations also determine the timetable for approval and publication. As a result of the Coronavirus pandemic the Regulations were amended requiring local authorities to sign off their draft accounts and publish their draft AGS by 31 August, instead of 31 May. The date for final publication of the accounts and AGS was also extended to 30 November, from 31 July.
3. The Annual Governance Statement must be signed by the Leader of the Council and the Managing Director and is a key corporate document involving a variety of people charged with delivering governance such as the Assistant Director Resources i.e. the financial officer responsible for the accounting control systems and records and the preparation of the Statement of Accounts and the Assistant Director Law and Governance as Monitoring Officer in meeting his statutory responsibilities.
4. The Annual Governance Statement for 2019/20 is attached at **Appendix 1**. It outlines the Council's responsibilities, explains the purpose of the governance framework, sets out the key elements, details the review of its effectiveness, highlights any significant governance issues and includes a commitment by the Leader of the Council and the Managing Director to ensure the continuous improvement of the system in place.

Recommendation

5. It is recommended that the draft Annual Governance Statement at Appendix 1 be approved.

Reasons

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

**Paul Wildsmith
Managing Director**

Background Papers

- (i) CIPFA/SOLACE Publication(s) – ‘Delivering Good Governance in Local Government – Framework and Guidance Note, 2016 Editions’.
- (ii) CIPFA Statement on the Role of the Chief Financial Officer in Local Government.
- (iii) CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations.
- (iv) Briefing from the CIPFA Better Governance Forum – 7 April 2020 - The Annual Governance Statement for 2019/20 Matters to consider as a result of the coronavirus pandemic
- (v) Audit Services’ Annual Report 2019/20 reported to Audit Committee September 2020.
- (vi) Annual Audit Letter reported to Audit Committee December 2017 and Cabinet January 2018.
- (vii) Report on Annual Review of System of Internal Audit reported to Audit Committee July 2018.
- (viii) Overview Report on Managers Assurance Statements reported to Audit Committee September 2020.
- (ix) Risk Management Reports to Audit Committee September 2020.
- (x) Corporate Health and Safety Report 19/20 to Economy and Resources Scrutiny Committee.
- (xi) Darlington Borough Council ICT Strategy 2017.
- (xii) ICT Strategy Progress Reports to Audit Committee November 2019.
- (xiii) Information Governance Programme Progress Reports to Audit Committee November 2019.
- (xiv) Anti-Fraud and Corruption Arrangements Reports to Audit Committee April 2019.
- (xv) Audit of Accounts Report to Audit Committee July 2019.
- (xvi) Revenue Budget Monitoring Reports to Cabinet July 2019, November 2019 and February 2020.
- (xvii) Project Position Statement and Capital Programme Monitoring Reports to Cabinet July 2019, November 2019 and February 2020.
- (xviii) Performance Management Framework Reports to Scrutiny Committees.
- (xix) Prudential Indicators and Treasury Management Reports to Audit Committee January 2019 and to Council February 2019.

- (xx) Annual Review of Significant Partnerships Report to Audit Committee September 2020.
- (xxi) Xentrall Shared Services Annual Report to Cabinet July 2020.
- (xxii) Ethical Governance and Member Standards Report to Audit Committee November 2019.
- (xxiii) Equality Policy And Objective 2018-22 Report to Cabinet March 2018.
- (xxiv) Darlington Borough Local Plan 2016-36: Housing Targets and Local Plan Timetable Reports to Cabinet and Council January 2018.
- (xxv) Borough of Darlington Proposed Submission Local Plan 2016 – 2036: Proposed Submission Local Plan and Local Plan Timetable Reports to Cabinet and Council February 2020.
- (xxvi) Draft Council Plan 2020-2023 Report to Cabinet January 2020.
- (xxvii) Investment Opportunities - Update and Request to Increase the Fund report to Cabinet & Council November 2018.
- (xxviii) Better Care Fund Report to Adults and Housing Scrutiny Committee 17 December 2019.
- (xxix) Adult Social Care Transformation Programme Report to Adults and Housing Scrutiny Committee April 2018.
- (xxx) Special Educational Needs Strategy and Funding Report to Cabinet March 2019.

Lee Downey: Extension 5451

S17 Crime and Disorder	There are no specific issues which relate to crime and disorder.
Health and Well Being	The work detailed under the headings External Regulatory Reviews, Children and Adults Transformation and Better Care Fund (BCF) impacts on Health and Well Being.
Carbon Impact and Climate Change	There are no specific recommendations contained within the attached reports concerning Carbon Reduction.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	The report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	The Council's governance arrangements and achievements underpin deliver of the strategy.
Efficiency	The Council's governance arrangements directly impact on efficiency.

<p>Impact on Looked After Children and Care Leavers</p>	<p>The work detailed under the heading External Regulatory Reviews and the Children's Transformation has a direct impact on Looked After Children.</p>
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ANNUAL GOVERNANCE STATEMENT 2019/20

Scope of Responsibility

1. Darlington Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
3. The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government, the 2016 Edition. A copy of the Code is on our [website](#) at or can be obtained from:

Democratic Services
Resources Group
Town Hall
Feethams
Darlington
DL1 5QT
Tel (01325) 405995

4. This Statement explains how the Council has complied with the Code and also meets the requirements of the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 in relation to the publication of an AGS.

The Purpose of the Governance Framework

5. The governance framework comprises the systems and processes and culture and values, by which the Council is directed and controlled and through which it accounts to, engages with and, where appropriate leads the community. The governance framework is intended to help the Council plan and deliver sustainable economic, environmental and social outcomes while living within its resource limits and enable the Council to monitor the achievement of its strategic objectives and consider whether those objectives have led to the delivery of appropriate services and value for money.
6. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

7. The governance framework has been in place at the Council for the year ended 31 March 2020 and up to the date of approval of the Statement of Accounts.

The Governance Framework

8. The key elements of the Council's governance framework are tabulated in Appendix A to this statement which also indicates their relevance to the following seven core principles that underpin good governance: -
 - (a) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
 - (b) Ensuring openness and comprehensive stakeholder engagement.
 - (c) Defining outcomes in terms of sustainable economic, social and environmental benefits.
 - (d) Determining the interventions necessary to optimise the achievement of the intended outcomes.
 - (e) Developing the entity's capacity, including the capability of its leadership and the individuals within it.
 - (f) Managing risks and performance through robust internal control and strong public financial management.
 - (g) Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.
9. Each key element, as detailed in the Council's Local Code, has a nominated lead officer, outlines the duty to which it relates and includes three discrete types of action:
 - (a) Awareness - making sure that everyone who needs to know about the element does know.
 - (b) Monitoring - ensuring that the duty is carried out.
 - (c) Review - actions to ensure that the element is reviewed in the light of effectiveness and emerging good practice.
10. The governance framework continually evolves to embrace new areas of service and the associated controls, and also to encompass regulatory reviews/recommendations and the Council's financial management arrangements that conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. The governance arrangements also conform to the requirements of the CIPFA Statement on the Role of the Head of Internal Audit in public service organisations.

Review of Effectiveness

Background

11. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by an Assurance Framework, documented in Appendix B, that includes the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Annual Internal Audit Report, and also comments made by the external auditors and other review agencies and inspectorates.
12. This Statement has been prepared by a management group that has responsibility for evaluating assurances and the supporting evidence. The group comprises the:
 - (a) Managing Director
 - (b) Assistant Director - Resources (S151 Officer)
 - (c) Assistant Director Law and Governance (Monitoring Officer)
 - (d) Head of Strategy, Performance and Communications
 - (e) Complaints and Information Governance Manager
13. The Audit Committee is responsible for the independent review and approval of the AGS following examination of the supporting evidence.
14. Assurance on adequacy and effectiveness is outlined under the following categories identified in the Council's Assurance Framework.

External Regulatory Reviews

15. Darlington Children's services are judged as requires improvement to be good. Ofsted Inspectors carried out a focused visit on 27 and 28 February 2019 looking at the arrangements for children in need and those subject to a protection plan, including children receiving help and support from the disabled children service, Life Stages Team.
16. Children's Services are a trailblazer for the National Strengthening Families Programme. The decision to undertake this programme was taken as the model of work and cultures aligns well with the current strengths-based practice in supporting children and families, through improving skills in relational practice, supporting them to build relationships and resilience.
17. There is a learning culture approach to the continued improvement journey, through accessing peer support via the regional Sector Led Improvement and Partners in Practice, as well as using Leeds City Council through the Strengthening Families Programme work. Performance data is comprehensive and quality assurance processes are embedded. Our relentless focus on improving quality of practice continues throughout, with staff now demonstrating relational approaches to their work.
18. The journey to good is progressing at pace, enabling children to be safe and well cared for at home, wherever this is in their best interests. There is a stable and committed leadership team with strong political support, has been successful in establishing and maintaining a stable and motivated workforce. Corporate and political commitment to this work is strong, evidenced through additional resources at the front line of practice.

19. Children and families receive services at the earliest stage and at the right level to support their needs through our targeted and multi-agency Early Help offer. Young children develop well, are ready for education and where necessary are supported with targeted speech and language input. Children maintain progress within school and within their family as they are supported by effective programmes.
20. Children in need of help and protection are safeguarded through effective screening and assessment against threshold, which staff understand well, which ensures consistent decision making from social care managers.
21. Children who are in immediate and acute risk situations are responded to effectively. Children at risk of neglect receive support and services to reduce the risk and meet need in a timely manner, through use of various models, which continue to be embedded and provide consistency in assessing levels of neglect.
22. Children experience effective care planning through pathway plans that are driven by Independent Reviewing Officers (IROs). The child's voice is heard, as they actively listen to the child, and have oversight of the child's progress between review meetings. Plans progress with little delay through IROs challenging where appropriate.
23. Senior leaders recognise there is more to do to ensure that the help and support provided to all children in need of help and protection result in sustained improvements in their lives.
24. The Local Authority operates four children's residential provisions, all of which have been inspected by Ofsted since April 2019 and are judged to be Good.

Corporate Planning and Performance Management Framework

25. The focus of the Council Plan is to provide a strategic vision for the council and in doing so identify the priority actions required to achieve the vision. Service plans are reviewed annually and are aligned with the Council Plan.
26. The Corporate Plan (now renamed to the Council Plan) was reviewed during 2019 and submitted to Cabinet in January 2020. It was approved by Cabinet and now needs to go to full Council for final approval before it can be implemented. Submission to Council has been delayed due to COVID-19 but it is expected to go to full Council in due course.
27. Performance measures for the new plan are in development and are likely to include a combination of qualitative and quantitative data. It is intended that these measures will form the basis of future performance reporting to the different scrutiny committees, but this remains subject to approval from the committee chairs.
28. A Performance Management Framework (PMF) is used to help measure delivery against the Council Plan and is based on a suite of performance indicators with targets and actions relevant to the locally determined outcomes.
29. During 2019/20 performance reporting primarily took place via clinics with the Managing Director and scrutiny groups. Moving into 2020/21 most services will report performance on a six-monthly basis to the Managing Director and scrutiny committees,

with an additional high-level report going to Cabinet in relation to performance against the Council Plan.

Transformation Programme

Children's Transformation

30. The Children's transformation programme 2019 is Strengthening Families, centred on relational practice with Children's services and partnership organisations working with children and their families to build resilience and ensure that where appropriate, children remain or are returned from local authority care to the family home with strong extended and supportive family members. The programme continues to work toward achieving savings as determined by the Strengthening Family Programme plan and the MTFP with improvements to service delivery. The programme is supported by a Strengthening Families Board in conjunction with Leeds City Council.

Adults Transformation

31. Significant progress has been made in delivering the Adults programme. The majority of the projects, that were originally identified, are now complete, or nearing completion, and will become 'business as usual'. There continues to be a focus on taking forward developments that will support the sustainability of the operating model in order to respond to challenges and maximise the opportunities that face the sector. The adoption of strength-based approaches that prevent, reduce and delay the need for formal support continues to be at the centre of service delivery. This approach promotes the independence and quality of life of adults living in our communities.
32. The Adults programme has been centred on the delivery of four strategic themes, which have now become embedded within the operating model: managing demand, maximising independence, self-directed support and a cost effective and sustainable market.

Education Transformation

33. A specific transformation programme for education services is now fully established. The programme seeks to develop high standard educational opportunities for all and ensure the needs of vulnerable pupils are met. A key element of the programme is developing a modern approach to the local authority role in education by driving change through strategic influence, highly effective partnership arrangements and collaborative networks. A local area Special Educational Needs and Disability (SEND) strategy was approved by Darlington Borough Council Cabinet and the NHS Hartlepool and Stockton-on-Tees Clinical Commissioning Group (CCG) in 2019. A revised funding arrangement for SEND support in schools was approved by Darlington Cabinet in 2019 to deliver a more accountable and transparent model.
34. Delivery of all three internal programmes are monitored via a Transformation Board, with monthly meetings and monthly reporting on progress in terms of delivery and financial savings.
35. As part of Darlington's partnership arrangements, the Education Strategy Group supports and oversees the work of the Primary Headteachers Forum and the 11-19 Partnership. It provides overall strategic direction and approves any partnership work programmes. The membership involves headteachers and CEOs representing the

primary, secondary, further education (FE) and special school sectors. The Education Strategy Group met on a weekly basis throughout the COVID-19 pandemic.

Better Care Fund (BCF)

36. The Better Care Fund (BCF) is a programme spanning both the NHS and Local Government which seeks to join-up health and care services, so that people can manage their own health and well being and live independently in their communities for as long as possible. The BCF is pooled under a Section 75 agreement under the National Health Service Act (2006).
37. The Darlington BCF Plan for 2019/20 was subject to a number of levels of scrutiny to ensure performance against the aims and objectives. These included regional and national scrutiny of quarterly submissions; assurance from the Darlington Integration Board with overall strategic ownership with the Health and Wellbeing Board (HWBB). Operationally, the BCF was overseen by a joint Pooled Budget Partnership Board comprised of the Council and Darlington Clinical Commissioning Group (CCG) and Discharge Management and Intermediate Care Delivery Groups, whose membership includes County Durham and Darlington Foundation Trust (CDDFT), Primary Care Network, Tees, Esk and Wear Valley NHS Trust (TEWV), Darlington CCG and the Council. A joint Commissioning Group has also been established to explore areas for closer alignment between the Council and Darlington CCG.
38. Each BCF Plan is required to meet four national conditions in order for the grant to be agreed. These were met during 2019/20, as detailed below:
- (a) Jointly agreed plan between the Local Authority and CCG
- The 2019/20 Plan was jointly considered and agreed by all colleagues with virtual agreement by the Chair and Vice Chair of HWBB in September 2019
- (b) Level of social care spend in line with minimum CCG contribution
- Minimum spend - £2,519,223; Planned spend - £2,547,140
- (c) NHS commissioned out of hospital services (has the area committed to spend at equal or above the minimum allocation for NHS commissioned out of hospital services)
- Minimum spend - £2,232,556; Planned spend - £5,021,325
- (d) Implementation of the High Impact Change Model through managing transfers of care
- A system wide self-assessment of the High Impact Change Model undertaken and agreed by all partners
39. In addition to the national conditions, there are four metrics against which performance is measured:

Metric	Definition	2019/20
Non Elective Admissions	Total number of specific acute (replaces General & Acute) non-elective spells per 100,000 population	2019/20 year end position shows activity of 13,535 vs plan of 13,603
Residential Admissions	Rate of permanent admissions to residential care per 100,000 population (65+)	2019/20 year end position shows performance rate of 697.5 vs a 19/20 target of 702.1 and therefore indicator has been achieved.
Reablement	Proportion of older people (65 and over) who were still at home 91 days after discharge from hospital into reablement / rehabilitation services	Q4 19/20 rate of 83.9% is a significant increase from Q4 18/19 which was 68.3%. This is against a BCF target of 84%
Delayed Transfers of Care	Average Number of People Delayed in a Transfer of Care per Day (daily delays)	Performance up to Feb-20 was below target. YTD delayed days to Feb-20 were 751 vs an annual target of 1,830. DToC reporting has since been suspended due to COVID-19.

40. The BCF Plan 20/21 continues to build on the foundations laid in subsequent years, with a focus on the areas of unplanned hospital admissions avoidance in 65+, a joint approach to discharge management, reablement and intermediate care services, improving health in care homes and building a robust community and universal services offer in support of managing demand into the future. The BCF delivery plan also integrates with the Better Health Programme “New Models of Care”.

Additional Improved BCF Grant

41. An additional Improved BCF Grant (iBCF) was announced in the 2017 budget, providing an additional £2,192,117 in 2017/18, with a further £1,425,577 in 2018/19 and £707,667 in 2019/20. For 2020/21 iBCF grant is rolled up with winter pressures for a total of £4.4m. The grant is subject to conditions which, in summary, are that the grant may only be used for the purposes of meeting adult social care needs, reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready and ensuring that the local social care provider market is supported.

Health and Safety Policy

42. The Health and Safety at Work Act 1974 (HASAWA) places a duty on employers to prepare a health and safety policy statement detailing the organisation’s health and safety arrangements and revise the policy if circumstances change.
43. The General Statement of Intent 2019 poster received its annual review. The Statement is signed by the Managing Director and Leader of the Council and Deputy Leader of the Council and Efficiency and Resources Portfolio and displayed in Council workplaces.
44. The Council has responded to the challenges presented by Coronavirus and has been committed to providing a COVID-19 secure work environment to ensure the health and wellbeing of our staff, service users and the public.

45. The Council has followed Government and Public Health guidance and developed and reviewed risk assessments and safe systems of work, consulting with employees and trade unions. Measures introduced to reduce and manage the risks associated with COVID-19 have included working from home where possible, limiting contact with people, social distancing, increased cleaning and hygiene arrangements and the use of personal protective equipment.

Equalities Policy

46. Following extensive consultation, the updated Equalities Policy and objective (2018/22) was approved by Cabinet on 6 March 2018. The new objective is 'To remind all Members and staff of their duties under the Equality Act 2010, demonstrate how the Council has done this via training and engagement with services users and support organisations, and publicise the differences that this work has made'. The policy covers a four year period with a delivery plan being implemented during 2018/19. Following the election of a new administration in May 2019, responsibility for corporate equalities sits within the Stronger Communities portfolio.
47. A corporate trainer for equalities was appointed in September 2019, and a comprehensive training programme started at the end of 2019 aimed at all staff and Members. Hundreds of people have been trained, but the programme has been temporarily paused due to COVID-19. A review of how the training can be delivered remotely is taking place.

Darlington Borough Local Plan 2016-36

48. The production of the Local Plan is currently paused due to COVID-19 which has prevented the Council being able to comply with the Local Plan Regulations 2012. Once the situation has changed the Plan will be placed on deposit for 6 weeks to allow representations. The Plan will then be submitted to the Government for Public Examination. A revised timetable for advancing the Local Plan (the Local Development Scheme) will be presented to Cabinet.
49. In January 2018 Council approved a housing need of 422 dwellings per annum for the period of the plan, 2016 to 2036, equating to 8,440 dwellings in total and a planned housing target of 492 dwellings per annum or a total of 9,840 dwellings over the Plan period which will ultimately inform the housing site allocations in the new Local Plan.
50. An up-to-date Plan is essential to meeting the development needs of the Borough and ensuring the Council can shape and are in control of development. The new Local Plan will cover the period 2016 to 2036. The revised timetable is that the Local Plan to be submitted for inspection in 2020 (with adoption likely in 2021).

Managers' Assurance Statements

51. Annual Managers' Assurance Statements (MAS) are an integral part of the framework that supports production of the AGS.
52. The Statements cover key aspects of the internal control environment on which assurance is required and were completed by all Assistant Directors and endorsed by the appropriate Director. The output from the exercise was reported to the Audit Committee in September 2020.

53. The 2019/20 MAS demonstrate a thorough review has been undertaken and generally an overall positive position was identified. While there were no common improvement themes highlighted in the 2019/20 MAS a number of service specific issues were raised. These matters are to be progressed by Assistant Directors during 2020/21.

Financial Management

54. The Council's Medium Term Financial Plan (MTFP) incorporates a four-year financial plan. The Council sets its annual revenue budget, capital programme and council tax and treasury management strategy within this wider planning framework. The MTFP, annual budgets and council tax are developed in consultation with partner organisations in all sectors, residents and employees and are approved by full Council.
55. The Council has continued to face significant financial challenges over the last decade following the economic downturn and reduction in grant funding but to date has been successful in responding to these challenges and has a four year balanced MTFP. However, the Council is very aware there are still pressures to be faced particularly in respect of a growing elderly population and pressures in the children's services sector and now of course the impact of the COVID-19 pandemic. This has again changed the financial outlook and whilst at the time of writing there are signs of recovery the longer term effects cannot be predicted with accuracy particularly in regard to the overall economy and impact on service demand.
56. The Government have committed to cover the cost of COVID-19 and to date have awarded £6.2m in grant funding. Whilst welcomed it falls short of the predicted financial impact particularly in regard to the loss of income in our leisure and culture facilities a Government lobbying will continue in this respect. Due to the Council's robust financial management over the years there are general fund reserves that can be used to cover any deficit in 2020/21, however if no further assistance is forthcoming a full review of the MTFP will take place to look at how any gap will be met.
57. The MTFP is continually monitored and reviewed by officers and Members and is revised at least annually when an updated rolling four-year plan is produced.
58. Responsibility for controlling and managing budgets is delegated to directors and devolved to service managers. Financial management is closely integrated with service management and a quarterly update is taken to Cabinet and Economy and Resources Scrutiny Committee to enable them to monitor and scrutinise financial performance and service delivery.
59. The Council must comply with external financial reporting requirements, including publishing an annual Statement of Accounts ('the Accounts') and reporting to Central Government and other funding providers. The Accounts, which are prepared in accordance with relevant legislation and codes of practice, are approved by the Council's Audit Committee and are independently audited.
60. The Council's cash-flow, borrowing to finance capital expenditure and investments are managed through the Treasury Management Strategy, approved by full Council, and in accordance with legislation and codes of practice. The strategy and associated policies and procedures were reviewed in 2020. The Council manages its investments to minimise risk of losses, ensure funds are available when needed and achieve interest income.

61. Governing Bodies have formal responsibility for financial management within schools. A Schools Financial Value Standard (SFVS) has been designed by the Department for Education (DfE) to assist schools in managing their finances and to give assurance that they have secure financial management in place. The Governing Bodies of each local authority maintained school are required to undertake a self- assessment annually against the SFVS and send a copy, signed by the Chair of Governors, to the Local Authority Finance Division. All returns for 2018/19 have been received and overall, they reflect a positive position. Any remedial actions considered necessary are detailed together with an appropriate implementation date. The SFVS returns are used by the Local Authority to inform their programme of financial assessment and audit.

Counter Fraud

62. The Council's Anti-Fraud and Corruption Strategy reflects a zero tolerance approach and is based on a series of comprehensive and inter-related policies and procedures designed to deter, frustrate, or take effective action against any attempted fraudulent or corrupt acts.
63. The counter fraud arrangements are subject to annual review and the revised strategy was reported to the Audit Committee in June 2019. The review included self- assessments against the 'CIPFA Code of Practice on Managing the Risk of Fraud and Corruption' and the 'Local Government Counter Fraud and Corruption Strategy 2016-19' checklists; a summary of reported suspected frauds and whistle blowing cases; and an update on the National Fraud Initiative.
64. The review concluded that the Council's arrangements remain appropriate and fit for purpose when compared to national good practice guidance and that overall the number of reported frauds and whistle blowing cases remains low. However, the Council is not complacent and the position will be kept under review.

Risk Management

65. Risk is one of the elements of information incorporated into the Council's service planning process. Risk management is, therefore an essential element in establishing policy, developing plans and enhancing operational management.
66. The risk management process involves identifying, analysing, managing and monitoring risks. The identification of risks is derived from a 'top down' (corporate) and a 'bottom up' (departmental) process of risk assessment and analysis resulting in coverage of the whole Council. The process prioritises the risks resulting in a focus upon the key risks and priorities. The risks are managed through the development of appropriate action plans, allocated to responsible officers.
67. The approach to, and the outcomes from, the Council's annual risk management processes for 2019/20 was reported to the Audit Committee in September 2020. The annual report highlighted a number of new risks, including some significant risks arising from the global pandemic and detailed generally positive progress upon delivery of action plans to mitigate key risks. The report also outlined advances in the management of operational risks.

ICT

68. The Council's ICT Strategy focuses on three strategic priorities, namely ICT Governance and Service Development; ICT Strategic Architecture and Council Service Development and Transformation.
69. Implementation of the Strategy is led by the Chief Officers Board, chaired by the Council's Managing Director, and acting as the Systems and Information Governance Group (SIGG). SIGG is tasked to produce six-monthly reports on implementation progress to the Audit Committee.
70. The progress report to the Audit Committee in November 2019 documented positive progress across each of the three key programmes. This included reference to:
- (a) Continued compliance to the Payment Card Industry Data Security Standards;
 - (b) Successful external audits by BSI to both ISO 27001:2013 Information Security Management System and ISO 9001:2015 Quality Management System standards;
 - (c) Achieving Full Assurance for all internal audits;
 - (d) Completing the detailed design for the new wide-area voice and data network, with roll-out to some buildings already underway;
 - (e) A successful migration of the Council's telephony system from traditional copper circuits to a more resilient, flexible and cost-effective fibre-based Internet system;
 - (f) An upgrade to the Council's Wi-Fi system in offices;
 - (g) Procurement of both telephony core management system upgrade and an upgraded video conferencing service;
 - (h) Continued developments relating to the migration and deployment of Microsoft 365 suite of systems; and
 - (i) Commencement of a programme to replace Windows 7 desktops across the Council.
71. As regards Council Service Development and Transformation, the Council's Systems and Information Strategy complements the ICT Strategy by ensuring that investment in service-based ICT systems is correctly targeted, whilst the ICT Strategy is concerned with corporate systems and underpinning ICT architecture. Development and delivery of the Systems and Information Strategy is by SIGG who approve the work programme requested of the ICT Service, thereby ensuring that this finite resource is correctly targeted to meet the objectives of the Council as a whole.
72. The later part of 2019/20 and the beginning of 2020/21 is turning out to be like no other and Xentrall ICT have had a very busy time since March hurriedly mobilising the Council whilst at the same time as protecting and mobilising our own services and staff and running all the vital day-to-day Xentrall-wide services the Council relies on, but often go unseen. We did this, while self-isolating and social distancing like everyone else.
73. Specifically, for Darlington ICT rapidly rolled out:
- (a) 116 laptops;
 - (b) 40 PCs;
 - (c) 110 PC Wi-Fi dongles allowing PC users to work from home; and
 - (d) 50 laptops for Members.

74. Microsoft Teams has been promoted to the whole workforce to enable better collaborative and remote working and this has been very successful.
75. To support such a massive increase in mobilisation and remote working, intensive behind the scenes work on the network, firewall, antivirus and remote connectivity infrastructure has been undertaken allowing approximately 700 people to remotely connect each day.
76. Throughout this period, it was key to remain calm and level-headed to ensure the wrong decisions were not taken due to the urgency and associated pressures. A measured approach and the longer-term view prevailed ensuring the Council's systems and data have remained secure and safe.

Information Governance

77. The Council has an Information Governance Work Programme shaped by a number of external information assurance requirements that represent good practice and have common objectives, namely compliance with information related legislation, approval to use essential external party systems and services and improvement in service delivery.
78. Implementation of the Programme is led by the Systems and Information Governance Group (SIGG) which is tasked to produce six-monthly reports on implementation progress to the Audit Committee.
79. The update report scheduled to be considered by Audit Committee in April 2020 (postponed due to COVID-19) noted the delivery of our information governance programme has provided the assurance required to reduce our information risks to an acceptable level. While that is the case it must be recognised that the data processing activities of the Council continually evolve and must be kept under review and that the processes implemented by the Council include review mechanisms to ensure this takes place.
80. Ongoing work includes:
 - (a) A review of the Council's Information Asset Register (IAR) and Privacy Notices.
 - (b) Provision of advice to ensure the Council's CCTV is compliant with the General Data Protection Regulations/Data Protection Act 2018 and the Protection of Freedoms Act 2012.
 - (c) The provision of advice by the Data Protection Officer to Council services;
 - (d) Work to achieve our target for the completion of on-line mandatory information governance training courses.
81. The area of highest priority in the information governance programme is:
 - (a) Ongoing work to ensure the Council's CCTV is compliant with the General Data Protection Regulations/Data Protection Act 2018 and the Protection of Freedoms Act 2012.

Capital Project Management

82. The Council has an established dedicated Capital Projects Team that operates to a consistent capital project management methodology. This methodology has been developed and is used across the Council on significant projects. Projects can be assigned to the Capital Projects Team for delivery or delivered under the principles and methodology.
83. The Asset Management and Capital Programme Review Board (AMCPRB) perform a strategic gate-keeping role on capital projects and considers their governance arrangements. The Board is chaired by the Managing Director with membership from chief officers with responsibility for capital projects, Council assets and those with specific technical, financial and legal expertise to add value to challenge and monitor the programme.
84. The Capital Projects Team has responsibility for the coordination of a Project Position Statement (PPS). The PPS provides a single source of key information relating to the Council's commitments on capital projects and programmes monitoring projects that deviate from agreed tolerances in relation to time, cost or quality to enable proactive management. The PPS is reported to the AMCPRB at every meeting and quarterly to Cabinet.
85. Further enhancement to the project management systems are underway and a proprietary system is being considered within Xentrall's ICT Work Programme. The system is currently being tested by the Capital Projects Team. Once the testing phase is complete a roll-out will be scheduled with a refresh of the methodology and training on use of the electronic system.

Internal Audit

86. The Council's Internal Audit Division operates to the UK Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note.
87. The Annual Internal Audit Plan is risk-based and sets the foundation for an objective review of key controls and procedures operating within the Council. The Audit Committee approves the Annual Internal Audit Plan and receives progress reports against the Plan during the year, including any significant matters arising or other issues of concern, and Internal Audit's Annual Report.
88. Internal Audit concluded in their Annual Report for 2019/20, reported to the September 2020 Audit Committee, that overall the Council continues to operate within a control environment that is generally sound.
89. A Shared Internal Audit Service with Stockton Borough Council commenced on 1 April 2017, following the agreement of both Councils. The intention was to future proof the important functions that the service provides while enabling a saving to be achieved, not least in management costs. In particular, the arrangement will enhance the resilience of the service.
90. The Audit Charter and Audit Plan 2020/21 for the Internal Audit Shared Service were approved and its Quality Assurance and Improvement Process noted at the September 2020 Audit Committee, following the April 2020 Audit Committee being postponed as a result of COVID-19.

Annual Review of the Effectiveness of the System of Internal Audit

91. A review of the effectiveness of the Council's system of internal audit was carried out by Middlesbrough Council Internal Audit Service as agreed by Audit Committee in March 2018. The findings of the review were considered by the Audit Committee in July 2018.
92. The review team concluded that the Council has an effective system of internal audit.

Xentrall-Shared Service Partnership

93. Xentrall Shared Services, the Stockton and Darlington partnership, was established in May 2008 and is now in its twelfth year. The Xentrall services are:
 - (a) ICT (strategy and operations)
 - (b) Transactional HR (payroll, recruitment, sickness absence)
 - (c) Transactional Finance (creditors, debtors, banking, schools finance)
 - (d) Design & Print (professional buyer, in-house design and print)
94. The original business case identified a number of efficiencies and benefits to be delivered resulting in initial savings of £7.4m over the original ten-year period of the partnership. The successful partnership has delivered all these plus additional efficiencies and benefits and has now achieved £17.2m of savings. At the same time the quality and performance of services have improved, with both customer and staff satisfaction increasing over the life of the partnership.
95. This significant achievement for a public/public partnership and it compares very well to other private sector partnerships many of which have failed over the same period or been brought back in-house for a variety of reasons. Both Councils have benefited both financially and through a continued programme of service improvements brought throughout the lifetime of the partnership.
96. In recognition the on-going success of this public/public partnership, Members will recall that in 2015 they agreed to amend the original ten-year period into an on-going rolling agreement, which continues to this day.

Partnership Working

97. In March 2007, Cabinet adopted a partnership working toolkit to provide a means to ensure that the Council's resources were effectively employed, the performance of each partnership was monitored and adequate governance arrangements were in place. As part of the toolkit, a clear definition of a partnership and those classed as significant was documented and this included whether the arrangement was a major contributor towards achieving the Community Strategy objectives. The toolkit that comprises a questionnaire is completed by the Council Lead Officer for each partnership.
98. There are annual reviews of significant partnerships led by the Darlington Partnership Director based upon completed questionnaires. The outcomes from the latest review were reported to the Audit Committee in September 2020.
99. The report summarised the range of partnership working undertaken by the Council and generally, an overall positive position on outcomes and governance arrangements was

depicted.

100. Partnership Lead Officers recognise and accept that ensuring governance arrangements remain relevant is an ongoing process. For example, Terms of Reference are reviewed periodically to ensure that they remain fit for purpose and risk registers are regularly updated to reflect emerging risks and changes in circumstances.
101. The toolkit has been effective in identifying high level concerns of the significant partnerships. Reduction in funding and the consequent effect on capacity are the predominant issues raised by Lead Officers that have potential implications for the effective operation of the partnerships. Each partnership which has indicated this as an issue is monitoring closely.
102. The Chief Officer Executive along with Cabinet have been considering the future of Darlington Partnership which has not met since December 2019.

Joint Ventures

103. The Council is investor and shareholder of a joint venture company delivering a small housing development on a pilot basis at Eastbourne, Darlington, following approval by Cabinet on 8 November 2016 and formally procured its joint venture partner on a framework basis to secure upcoming developments as they arise as an OJEU procurement process concluded in September 2017.
104. Cabinet has since approved extending the scope of its joint venture working with further joint venture companies of which the Council is joint investor approved by Cabinet (on the dates shown) at Stag House Farm (April 2018), Heighington (June 2018) and Middleton St George (January 2019).
105. Five joint venture projects are now under contract, the final sales of the first development are being concluded with a positive outcome with the other projects under development and the Stag House Farm development having the benefit of external funding in outline of £2.79m to support required housing infrastructure.
106. The risks and governance safeguards in place with respect to joint venture working include internal and company audits, restriction on banking facilities, monthly progress reports and quarterly board meetings. Further details are contained in the Assurance Framework at **Appendix B** of this report.

Member Standards

107. In 2019/20 there were 10 complaints received against Members, eight of which related to the Local Plan. A total of five complaints were received in 2018/19.
108. This is considered a relatively low number given the number of Members we have, and the range and volume of matters that Members are involved with.
109. The Independent Person continues to be involved at the assessment stage of complaints handling and the process of liaison between her and the Monitoring Officer in considering the initial assessment of complaints is working well.
110. The Audit Committee has responsibility for ethical values as part of its remit. This includes reviewing Ethical Health Indicators across a range of activities in order to

identify any peaks in activity that could indicate areas of possible concern. An update report about member standards issues and also ethical indicators were presented to the Audit Committee in November 2019. An update was planned for April 2020, but the meeting was postponed due to COVID-19. The report highlighted the 25th anniversary of the establishment of the Committee on Standards in Public Life (CSPL) and the [Nolan Principles](#) of which the CSPL is an advocate. No particular issues of concern arose from variations in the indicators.

111. Since the May 2019 local government elections, a number of training sessions about the Code of Conduct have been held for members of the Borough Council and also for members of Parish Councils and Parish Clerks.
112. As a result of the May elections the Council's website has been updated with details of the register of interest forms for both Borough Council and Parish Council Members.
113. The Monitoring Officer continues to provide advice to Members on interests on an ongoing basis and Members do self-identify their concerns. The Monitoring Officer also raises issues with individual Members ahead of meetings as required. Compliance with the advice given by the Monitoring Officer is good.

Economy and Resources Scrutiny Committee

114. Scrutiny forms an important part of the Council's governance arrangements by providing independent examination of executive roles. The Economy and Resources Scrutiny Committee has responsibilities for examining the Council's arrangements for financial planning, performance and service delivery, project and asset management and procurement and contracts. The Committee develops and implements an annual work programme to manage its continuing oversight role and undertake specific pieces of work.
115. During 2019/20 the Committee was involved in scrutinising the annual review of the MTFP and held a number of special meetings to consider the proposals made, both for its own areas of responsibility and also responses and detailed work from all other scrutiny committees, from which it made recommendations to Cabinet in February 2020 to inform their deliberations. Economy and Resources Scrutiny will continue to lead on monitoring and scrutinising the budget and MTFP and assist with the implementation and development of the required savings.

Brexit

116. Brexit remains on the Corporate Risk Register. During 2019/20 significant planning work had taken place with partners across the Local Resilience Forum, and also across the wider North-East, in preparation for any potential impacts. Whilst this work has been put on hold during the pandemic, it will resume in the near future as we move closer to our exit from the European Union.

Public Health (COVID-19)

117. The pandemic emerged in the later part of 2019/20 with an escalating response through March with the widespread restrictions, known as 'lockdown' implemented on 23 March by the Government.

118. The Council has been making decisions day by day in order to balance the need to maintain essential services and the need to support those who need our help the most, while at the same time following public health guidance for the protection of the public and staff against infection from Coronavirus (COVID-19).
119. Through new and existing legislation, the Council has been directed to undertake a local leadership role and implement key programmes in response to the ongoing outbreak of COVID -19. This included changing the ways of working for staff, supporting and applying public health measures, supporting vulnerable individuals and communities and supporting local businesses. These programmes were all implemented in line with the range of, new and existing legislation, national policy frameworks and government guidelines.

Business Continuity

120. The Council's Business Continuity Management System ensures that the Council can manage the response to a business interruption. Examples of this include the loss of buildings, loss of IT function, loss of utilities, loss of communication and loss of staff. Through a process of Business Impact Analysis a series of Business Continuity Plans are maintained to ensure the Council's essential services are prepared for a business interruption.
121. The Business Continuity Management System is now embedded into the Council. Business Continuity Plans are monitored as part of the Local Code of Corporate Governance and are a regular agenda item at Chief Officers Board (COB) Meetings. Individual Business Continuity Plans are regularly updated to take into account business changes and the response to actual business interruptions and are available to view on the Council's intranet. A regime of testing was underway in which all plans were to be tested to improve their effectiveness when the global pandemic hit.
122. On 25 June 2020 the Civil Contingencies Unit (CCU) facilitated a debrief for COB to reflect on the response of the Council to the challenges posed by COVID-19. It was highlighted that the Business Continuity Plans were important for preparing and responding to COVID-19. COB was satisfied with their effectiveness, enabling the Council to continue to deliver key services while targeting its resources at meeting the needs of those most vulnerable to COVID-19.

Home working

123. The Council already had an established agile working policy with a significant number of staff working on laptop and mobile devices. As detailed in paragraph 74 the Council quickly rolled out additional laptops, PC's and dongle devices allowing them to be taken home and linked to the Council's network. The authority has always worked on an outcome/output basis and productivity is not measure on where the employee is based but on what they deliver. In fact in some areas productivity increased with reduced travel time to and from work and to and from meetings. Regular supervisor and team meetings were held to ensure work kept on track and to support employee wellbeing. The rapid rollout of Microsoft Teams made this task far easier and given the success, home working will certainly be more prolific in our conversations on our estate moving forward. There was also a significant amount of support for employees in regard to their wellbeing with regular communications, signposting and FAQ's available.

External Audit

124. The Council's external auditors Ernst and Young LLP (EY) are expected to give an unqualified opinion on the Council's 2019/20 accounts by the target date of 30 November 2020.
125. The external auditors are expected to issue an unqualified value for money conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.
126. EY review the AGS to consider whether it complies with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to them. They are expected to confirm that they found no areas of concern in this context.
127. The auditors are also required to report to management and the Audit Committee any significant deficiencies in internal control identified during their audit. EY have not raised any significant matters in this regard.

Action Plan 2020/21

128.

No.	Action	Responsible Officers
1	COVID-19 – plan the Council's contribution to economic and social recovery - Utilise lessons learnt from the pandemic response to help shape future responses and service delivery.	Managing Director Directors
2	Continue to work with the Cabinet and Council to further refine plans and priorities.	Managing Director Directors Assistant Director Resources (S151 Officer)
3	Manage risks within the MTFP to ensure continued financial sustainability of the Council.	Managing Director Director of Adult and Children's Services Assistant Director, Children's Services
4	Work with Partners to look at new approaches to improving outcomes for children at risk of becoming Looked After.	Managing Director Director of Adult and Children's Services
5	Continue to create the conditions for economic growth including approval of the Local Plan.	Director of Economic Growth Assistant Director, Economic Growth

129. An update on the 2019/20 action plan is contained in Appendix C.

Conclusion

130. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. In conclusion, we are satisfied the Council has robust governance arrangements in place and while there are currently no governance issues we are committed to the continuous improvement of the system.

Signed

Leader of the Council

Signed

Managing Director

APPENDIX A

Document/Function	Core Principles of Corporate Governance						
	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Ensuring openness and comprehensive stakeholder engagement	Defining outcomes in terms of sustainable economic, social and environmental benefits	Determining the interventions necessary to optimise the achievement of the intended outcomes	Developing the entity's capacity, including the capability of its leadership and the individuals within it	Managing risks and performance through robust internal control and strong public financial management	Implementing good practices in transparency, reporting, and audit, to deliver effective accountability
Council Plan		✓	✓	✓			✓
Constitution	✓	✓					✓
Corporate/Service Planning and Performance Management Framework		✓	✓	✓	✓	✓	✓
Communications and Engagement Strategy	✓	✓	✓	✓			✓
ICT Strategy			✓		✓		
Workforce Strategy	✓				✓		
Schedule of Council Meetings		✓					✓
Council Procedure Rules	✓	✓					✓
Record of Decisions		✓	✓	✓			
Partnership Working Toolkit	✓	✓	✓	✓	✓	✓	✓

Document/Function	Core Principles of Corporate Governance						
	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Ensuring openness and comprehensive stakeholder engagement	Defining outcomes in terms of sustainable economic, social and environmental benefits	Determining the interventions necessary to optimise the achievement of the intended outcomes	Developing the entity's capacity, including the capability of its leadership and the individuals within it	Managing risks and performance through robust internal control and strong public financial management	Implementing good practices in transparency, reporting, and audit, to deliver effective accountability
Code of Conduct for Members	✓	✓					✓
Members Induction and Training Programme	✓	✓			✓	✓	✓
Code of Conduct for Employees	✓	✓					
Officer and Member Protocols	✓				✓		
Confidential Reporting Policy	✓					✓	✓
Code of Corporate Governance	✓	✓	✓	✓	✓	✓	✓
Risk Management Approach				✓		✓	✓
Anti-fraud and Corruption Policies	✓					✓	✓
Capital Projects Methodology		✓	✓			✓	

Document/Function	Core Principles of Corporate Governance						
	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Ensuring openness and comprehensive stakeholder engagement	Defining outcomes in terms of sustainable economic, social and environmental benefits	Determining the interventions necessary to optimise the achievement of the intended outcomes	Developing the entity's capacity, including the capability of its leadership and the individuals within it	Managing risks and performance through robust internal control and strong public financial management	Implementing good practices in transparency, reporting, and audit, to deliver effective accountability
Information Governance Policies	✓	✓				✓	✓
Procurement Strategy	✓	✓	✓			✓	
Contract and Property Procedure Rules	✓	✓	✓			✓	
Medium Term Financial Plan/Budgets		✓	✓	✓		✓	✓
Treasury Management Framework						✓	
Annual Statement of Accounts		✓				✓	✓
Financial Procedure Rules	✓	✓				✓	✓
Scheme of Delegation		✓			✓		✓
Complaints Process	✓	✓					✓
Equalities Policy		✓	✓	✓			
Business Continuity Plans		✓				✓	

Document/Function	Core Principles of Corporate Governance						
	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Ensuring openness and comprehensive stakeholder engagement	Defining outcomes in terms of sustainable economic, social and environmental benefits	Determining the interventions necessary to optimise the achievement of the intended outcomes	Developing the entity's capacity, including the capability of its leadership and the individuals within it	Managing risks and performance through robust internal control and strong public financial management	Implementing good practices in transparency, reporting, and audit, to deliver effective accountability
Health and Safety Policy		✓				✓	✓

APPENDIX B

Assurance Framework

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
Corporate Planning and Performance Management Framework inadequate/ineffective	Chief Officers Executive	<p>Quarterly performance clinics held between the Managing Director, Director and Assistant Directors.</p> <p>Performance data is gathered from various sources and reviewed by the Assistant Director and relevant Director in advance of the clinics.</p> <p>Clear definitions for indicators are in the process of being established.</p>	Performance indicators are reviewed by Internal Audit when individual service areas are audited.	Baskets of performance indicators reported to scrutiny groups on a quarterly basis.
Equalities Policy inadequate/ineffective	Chief Officers Board	<p>Indicators relating to equalities to be included in Performance Clinics with Managing Director.</p> <p>Corporate Equalities Group consisting of equalities advisors (appointed by Assistant Directors) and chaired by Head of Strategy, Performance and Communications will meet quarterly to monitor and report on equalities related performance indicators.</p>	Where appropriate, equalities related performance indicators are reviewed by Internal Audit when individual service areas are audited.	<p>Equalities report to be produced annually by the Corporate Equalities Group.</p> <p>Report to be presented to the Chief Officers Executive and the portfolio holder for Health and Housing.</p>

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
Darlington Borough Local Plan 2016-36 not adopted	External examination by the Planning Inspectorate	Planning Advisory Service Peer review through duty to cooperate PINS advisory service	Local Plan is not currently linked to Internal Audit Plan due to examination processes.	Local Plan development is considered through Member advisory Panel and Place Scrutiny Committee. Submission document and adoption of the plan considered by Cabinet and Full Council.
Internal Control environment inadequate/ineffective.	Internal Audit	Internal Audit Strategy. Internal Audit's Role and Terms of Reference. Risk based Annual Internal Audit Plan. Internal Audit Reports/opinions and outcomes from consultancy work undertaken.	Internal Audit Strategy. Internal Audit's Role and Terms of Reference. Risk based Annual Internal Audit Plan. Internal Audit reports/opinions and outcomes from consultancy work undertaken.	Internal Audit's Strategy, Role and Terms of reference and Annual Audit Plan approved by the Audit Committee. Quarterly/Annual Reports to the Audit Committee on progress/outcomes against the Annual Audit Plan. Annual Report includes an overall opinion on the Council's control environment.
The financial position of the Council not presented fairly in the Financial Statements; the Annual Governance Statement not presented in	External Audit	Risk based External Audit Plan. External Audit Reports/opinions.	Internal Audit's Annual Audit Plan discussed with External Audit to facilitate External audit planning and minimise the duplication of audit effort wherever possible.	External Audit Plan and External Audit Reports, including the Annual Audit Letter, considered by the Audit Committee. Annual Audit Letter considered by Cabinet.

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
accordance with relevant requirements; and proper arrangements are not in place to secure economy, efficiency and effectiveness in the use of resources.				
Inadequate provision of services to the people of Darlington.	External Inspection Agencies	External Inspection Agencies' reports.	External Inspection reports reflected upon in the Internal Audit planning process.	External Inspection reports and progress on improvement action plans considered by relevant Scrutiny Committee/Audit Committee/Cabinet/Council.
Business risk processes inadequate/ineffective	Law and Governance	Risk Management Approach Corporate/Group Risk Registers.	Annual Audit Plan developed with reference to Corporate/Group Risk Registers. Risk Management function subject to periodic Internal Audit review as part of the cyclical audit process.	Risk Management Approach endorsed by the Audit Committee and approved by Cabinet. Six-monthly/Annual Reports to the Audit Committee on the outcomes from the Council's risk management processes.
Fraud and corruption arrangements inadequate/ineffective.	Internal Audit and Housing Benefits.	Anti-Fraud and Corruption Strategy, Policy, Fraud Response Plan, Anti-Money Laundering Policy and Anti-Bribery Policy and Procedures. Housing Benefit/Council Tax Anti-Fraud Strategy, Policy and	Anti-Fraud and Corruption arrangements, including National Fraud Initiative exercises, administered by Internal Audit. The potential for a service to be susceptible to fraud	Fraud related Policies and Strategies approved by the Audit Committee/Council Confidential Reporting Policy approved by Council. Annual Reports to the Audit Committee on the

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
		Sanctions Policy. Confidential Reporting Policy. Internal Audit reviews of arrangements. Outcomes from bi-annual National Fraud Initiative exercises. Internal Audit/Housing Benefits case files.	reflected within Internal Audit's risk assessment model that underpins the annual audit planning process. Internal Audit review of Housing Benefits conducted on an annual basis.	outcomes from the Council's anti-fraud and corruption arrangements.
Information governance arrangements inadequate/ineffective.	Systems and Information Governance Group (SIGG), Senior Information Risk Owner (SIRO), Caldicott Guardian, Data Protection Officer (DPO), Complaints and Information Governance Team, Xentrall and External Audit.	Corporate policies, processes, procedures and guidance in place. SIGG Minutes. Officer/Member Training. Data Quality reflected upon by External Audit in their VFM assessment.	Information Governance/Sensitivity of data is reflected within Internal Audit's risk assessment that underpins the annual audit planning process. Information Governance subject to periodic Internal Audit review as part of the cyclical audit process.	Six-monthly reports to the Audit Committee on progress with implementation of the information governance work programme. External Audit VFM assessment considered by the Audit Committee and Cabinet.
Internal control environment of relevant areas of Xentrall inadequate/ineffective.	Stockton BC Internal Audit	Risk based Annual Internal Audit Plan. Internal Audit reports/opinions and outcomes from consultancy work undertaken.	Joint working protocol agreed between the Internal Audit Services of Stockton and Darlington to cover Xentrall audits. Copies of all relevant Stockton BC Internal Audit Reports on Xentrall forwarded to Darlington Internal Audit for	Stockton BC's Annual Audit Plan related to Xentrall considered by the Audit Committee. Quarterly Reports to the Audit Committee on progress/outcomes against the Annual Audit Plan.

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
Local Code of Corporate Governance not implemented.	Corporate Group with responsibility for overseeing the drafting of the Annual Governance Statement.	Local Code of Corporate Governance Local Code individual key documents/functions matrices updated quarterly by relevant Lead Officers, covering awareness, monitoring and review actions.	information. Internal Audit direct effort annually to validate a sample of evidence to support delivery of awareness, monitoring and review actions detailed on the Local Code individual key documents/functions matrices.	Local Code endorsed by the Audit Committee and approved by Council. Annual Governance Statement considered by the Audit Committee prior to approval.
Grant processes inadequate.	External Audit Internal Audit	External Audit Report on audited Grant Claims. Internal Audit sign-off of relevant Grant Claims.	Grant process arrangements subject to annual review by Internal audit.	External Audit Report on Grant Claims considered by the Audit Committee. Internal Audit Grant Claims work referenced in Quarterly Reports to the Audit Committee on progress/outcomes against the Annual Audit Plan.
Health and Safety practices and processes inadequate/ineffective	Health and Safety Unit	Corporate Health and Safety Policy. Heads of Service Health and Safety Management self assessments and action plans. Risk Assessments Reportable Accident Statistics Outcomes from audits undertaken by the Health and Safety Unit.	Health and Safety function subject to periodic Internal Audit review as part of the cyclical audit process.	Corporate Health and Safety Policy approved by Cabinet. Council's performance on health and safety reported annually to the Economy and Resources Scrutiny Committee.

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
		Officer/Member Training.		
Property management arrangements inadequate	Corporate Landlord Function	Corporate Premises Database System and supporting documentation.	Corporate Landlord Function subject to periodic Internal Audit review as part of the cyclical audit process.	Property management arrangements included in Council Risk Registers and, as such, included within member reporting arrangements for business risk processes.
Management control in respect of operational aspects of the business inadequate.	Chief Officers Board	Annual signed Assurance Statements from Assistant Directors.	Arrangements administered and outputs scrutinised by Internal Audit.	Annual report to the Audit Committee on the outcomes from the Assurance Statement process.
Capital Project management arrangements inadequate/ineffective.	Asset Management and Capital Programme Review Board	Asset Management and Capital Programme Review Board Agendas/Minutes and supporting documentation.	Project Office function subject to periodic Internal Audit review as part of the cyclical audit process.	Project Position Statement reported regularly to Cabinet.
Partnership governance arrangements inadequate.	Partnership Lead Officers	Annual Partnership Toolkit questionnaires completed by relevant Council Partnership Lead Officers and supporting documentation provided.	Partnership Governance Arrangements subject to periodic Internal Audit review as part of the cyclical audit process.	Partnership Toolkit approved by Cabinet. Annual report to the Audit Committee on the operations of significant partnerships.
Joint Venture Housing Investment	Internal Audit DBC Directors Legal Services advice as required	Copies of Company Audit reports Access to Banking facilities Restriction on Banking Facilities without approval of 2 Directors Weekly Sales Report Monthly Progress Report Quarterly Board meeting attended	Joint Venture Arrangements subject to periodic internal audit review and reviewed as part of cyclical audit process	Joint Venture Arrangements included in the Council's risk register and as such included within member reporting arrangements for business risk processes.

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
		by DBC Directors with Legal, Finance and Housing expertise. Shareholders Reserved Matters		
Treasury management arrangements inadequate.	Financial Services	Treasury Management Policy Statement, Strategy, Prudential Indicators and Procedures.	Treasury Management function subject to periodic Internal Audit review as part of the cyclical audit process.	Treasury Management Policy Statement, Strategy and Prudential Indicators considered by the Audit Committee and approved by Council. Treasury Management Procedures approved by the Audit Committee. Regular/Annual Reports to the Audit Committee and Cabinet on the performance of the Treasury Management function.
Financial management arrangements inadequate/ineffective.	Financial Services	Medium Term Financial Plan. Corporate Budget Setting/Monitoring processes and supporting documentation. Officer/Member Training.	Financial management arrangements subject to periodic Internal Audit review as part of the cyclical audit process.	Medium Term Financial Plan approved by Council. Quarterly Reports to Cabinet on Financial Performance.
Financial management arrangements in local authority maintained schools inadequate/ineffective.	School Governing Bodies	Schools annual self-assessment returns against the Schools Financial Value Standard (SFVS).	Financial arrangements in schools subject to periodic Internal Audit review as part of the cyclic audit process.	School balances reported to Cabinet quarterly.
Ineffective	Chief Officers	Chief Officer Executive	Internal Audit	Reports to Cabinet and

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
management of the transformation agenda.	Executive	Agendas/Minutes and supporting documentation.	support/contribute to delivery of the Transformation Programme as relevant.	Scrutiny as appropriate.
Ineffective challenge to the procurement process.	Procurement Board	Procurement Board Agendas/Minutes and supporting documentation.	Procurement process subject to periodic Internal Audit review as part of the cyclical audit process.	Annual Procurement Plan approved by Cabinet.
Ethical health arrangements inadequate.	Law and Governance	Member Code of Conduct. Officer Code of Conduct. Member/Officer Training.	Audit Committee reports on ethical indicators reflected upon in the audit planning process.	Members and Officers Codes of Conduct approved by Council. Audit Committee receives reports on ethical indicators.
Lessons not learned from complaints received.	Complaints and Information Governance Team	Corporate, Adult Social Care, Children's Social Care, Housing and Public Health Complaints, Compliments and Comments Procedures. Complaints Records. Local Government and Social Care Ombudsman Housing Ombudsman Annual reports to COB. Regular reporting to senior management. Quarterly reporting via PMF. External Inspection Agencies' reports.	Complaints and Ombudsman reports reflected upon in the audit planning process.	Complaints Procedures approved by Cabinet. Annual report to Cabinet on complaints received and the resultant organisational learning. Regular reports to Cabinet on Ombudsman complaints and outcomes.
Inadequate arrangements for the delivery of the Public	Director of Public Health	Public Health Work Plan. Health and Wellbeing Strategy. Director of Public Health's Annual	Public Health function subject to periodic Internal Audit review as part of the cyclical	Regular reports to Health and Wellbeing Board and Health and Partnerships

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
Health function and responsibilities.		Report.	audit process.	Scrutiny Committee.
Ineffective system of internal audit	Senior Group of Officers	Annual Review of the system of internal audit and supporting documentation.	Internal Audit direct effort annually to support the review process.	Annual Review of the system of internal audit considered by the Audit Committee.

APPENDIX C

No.	Action	Responsible Officers	Update
1	Work with the new Council to refine current plans and priorities	Managing Director Directors	The Council now has a new draft Council Plan which was ready for approval by Council pre COVID-19 but has now been withdrawn from Cabinet for future consideration by Cabinet to take account of COVID-19 impacts.
2	Manage risks within the MTFP to ensure continued financial sustainability of the Council	Managing Director Directors Assistant Director, Resources (S151 Officer)	A four year balanced MTFP was approved in February 2020.
3	Work with Partners to look at new approaches to improving outcomes for children at risk of becoming Looked After	Managing Director Director of Adult and Children's Services Assistant Director, Children's Services	Progress has been made in partnership with the DfE and Leeds City Council leading to changes in practice and outcomes.
4	Implement the recently approved Special Educational Needs Strategy	Managing Director Director of Adult and Children's Services	The policy is being implemented.
5	Continue to create the conditions for economic growth including approval of the Local Plan	Director of Economic Growth Assistant Director, Economic Growth	Progress is being made in particular works at Ingenium Park progress and Central Park has seen the opening of the Universities Horizons Centre. The Town Centre Strategy is also progressing.
6	Work with Darlington Partnership to	Managing Director	Work on implementing new initiatives continues and the

	implement the Fairer, Richer Darlington Charter	Directors	<p>most significant being the Bread and Butter Thing charity starting work in Darlington to provide a sustainable food offer to struggling communities. COVID-19 has seen wide involvement across the Borough in supporting those most in need.</p> <p>The Council has agreed its approach to Community Wealth Building which aims to increase spending by the Council in the Borough. Other public sector organisations are expected to follow suit soon.</p>
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