



## **Audit Committee**

**Date**        **Friday 29 July 2016**  
**Time**        **10.00 am**  
**Venue**       **Committee Room 2, County Hall, Durham**

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### **Business**

#### **Part A**

**Items during which the Press and Public are welcome to attend.  
Members of the Public can ask questions with the Chairman's  
agreement.**

1. Apologies for Absence
2. Minutes of the meeting held on 30 June 2016 (Pages 1 - 4)
3. Declarations of interest, if any
4. 2015/2016 Final Outturn for General Fund and Housing Revenue Account - Report of Corporate Director, Resources (Pages 5 - 36)
5. Treasury Management Outturn 2015/2016 - Report of Corporate Director, Resources (Pages 37 - 48)
6. Statement of Accounts for the year ended 31 March 2016 - Report of Corporate Director, Resources (Pages 49 - 284)
7. External Audit - Progress Report July 2016 - Report of External Auditor (Pages 285 - 292)
8. Compliance with International Auditing Standards - Report of the Chair of the Audit Committee (Pages 293 - 318)
9. Strategic Risk Management - Progress Report for the Quarter ended 30 June 2016 - Report of Corporate Director, Resources (Pages 319 - 332)
10. Annual Review of the System of Internal Audit 2015/2016 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 333 - 352)
11. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
12. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

**Colette Longbottom**  
Head of Legal and Democratic Services

County Hall  
Durham  
21 July 2016

To: **The Members of the Audit Committee**

Councillor E Bell (Chairman)  
Councillor J Rowlandson (Vice-Chairman)

Councillors L Armstrong, C Carr, J Carr, M Davinson, J Robinson,  
W Stelling and O Temple

**Co-opted Members:**

Mr D Beavis and Mr C Robinson

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**Contact: Jackie Graham**

**Tel: 03000269704**

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**DURHAM COUNTY COUNCIL**

At a Meeting of **Audit Committee** held in Committee Room 1A, County Hall, Durham on **Thursday 30 June 2016 at 10.00 am**

**Present:**

**Councillor E Bell (Chairman)**

**Members of the Committee:**

Councillors J Rowlandson (Vice-Chairman), C Carr, J Carr, M Davinson and J Robinson

**1 Apologies for absence**

Apologies for absence were received from Councillors L Armstrong, W Stelling, O Temple and Mr C Robinson.

**2 Minutes**

The minutes of the meeting held on 17 May 2016 were agreed and signed by the Chairman as a correct record.

There were no matters arising

**3 Declarations of interest**

Declarations of interest were provided by Members of the Committee. A general declaration of interest would be recorded given that Members were school governors, members of various Committees of the Council, former District Councillors and bodies such as the Fire Authority.

**4 Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2016**

The Committee considered a report of the Interim Corporate Director, Resources regarding whether the Council should be considered as a 'going concern' organisation and whether the Council's Annual Accounts should be based on that basis (for copy see file of Minutes).

Councillor Robinson referred to Paragraph 10 of the report which showed the Net Assets of the Council had reduced from £1.2bn in 2009 to £466m in 2015 and asked whether this was as a result of austerity. The Finance Manager, Revenue/Capital replied that up to the end of March 2016 Net Assets had increased to £568m. The Transfer of Housing Stock and fluctuations in pension fund liability were significant transactions and were the reason for the reduction in Net Assets as

shown. Councillor Carr informed the Committee that the reassessment of the pension fund which was due this year could also have an impact.

Mr Beavis congratulated the Council on identifying savings from the outset, which had been achieved through efficiencies without impacting on frontline services. He asked, however, whether the impact of further austerity had been identified.

Councillor Bell replied that this was an ongoing situation which was closely and regularly monitored within the organisation.

Mr Beavis asked what the impact of the recent EU Referendum result might be. The Interim Corporate Director of Resources replied that the Council had a three year Medium Term Financial Plan which provided annual forecasts and was regularly monitored. The Plan identified cost pressures and impacts of government funding reductions and had accurately forecasted grant reductions. Detailed proposals for the forthcoming year were considered by Cabinet as well as indicative proposals for future years, and consultation on detailed proposals was carried out. Work on proposals for 2017/18 was currently being undertaken, but when the MTFP was prepared in February the result of the Referendum was not anticipated. More clarity around the impacts of the Referendum result should be known around September when a new government was in place, but it was forecast that the financial situation for local government would not improve with more austerity expected.

**Resolved:**

That the Council should be considered as a going concern and that the Statement of Accounts should be prepared on that basis.

**5 Annual Audit Opinion and Internal Audit Report 2015 / 2016**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which provided the Chief Internal Auditor and Corporate Fund Manager's assurance opinion on the adequacy and effectiveness of the Council's internal control environment and presented the Annual Internal Audit Report for 2015/16 (for copy see file of Minutes).

Councillor Carr referred to the potential payroll migration to Oracle and asked whether the Chief Internal Auditor and Corporate Fraud Manager had an assurance that this would work. The Chief Internal Auditor and Corporate Fraud Manager replied that Phase 1 of the proposal was to consider whether Oracle was the 'best fit' for this and work was ongoing on this project.

**Resolved:**

That the content of the Annual Internal Audit Report and the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's Internal Control environment for 2015/16 be noted.

## **6 Draft Annual Governance Statement 2015/2016**

The Committee considered a report of the Interim Corporate Director, Resources, which sought approval of the draft Annual Governance Statement for 2015/15 (for copy see file of Minutes).

### **Resolved:**

That the first draft of the Annual Governance Statement for 2015/16 be approved.

## **7 External Audit - Progress Report**

The Committee noted a report of the External Auditor which provided details of progress on the external audit of Durham County Council to date (for copy see file of Minutes).

C Waddell of Mazars informed the Committee that there were no significant issues to report. With the receipt of the draft financial statements the audit would move into the final fieldwork phase, the culmination of which would be the Audit Completion Report which would be presented in September 2016.

### **Resolved:**

That the contents of the external auditor's progress report be noted.

## **9 Exclusion of the Public**

### **Resolved:**

That under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 2 and 3 of Schedule 12A to the said Act.

## **10 Protecting the Public Purse - Annual Report 2015/16**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which presented the Protecting the Public Purse Update Report for 2015/16 (for copy see file of Minutes).

The report provided an update on the following:

- The work of the Corporate Fraud Team.
- Action taken to raise awareness of the risk of fraud and corruption to assist in embedding a strong counter fraud culture throughout the organisation.
- Reported cases of potential fraud and irregularity reported during 2015/2016.
- Proactive Counter Fraud work completed.
- Progress on the Council's participation in the National Fraud Initiative (NFI) 2014 / 2015.
- Fraud Reporting.
- Fraud Training.
- Use of resources on proactive counter fraud initiatives and counter fraud investigations.

**Resolved:**

That the contents of the Annual Protecting the Public Purse Update Report 2015/16 including:

- The work carried out by the Corporate Fraud Team.
- The actions taken to improve the awareness and the arrangements in place for managing the risk of fraud and corruption.
- Cases of potential internal corporate fraud and irregularity reported to internal audit and ongoing investigations.
- Corporate Fraud Team numbers and values of Fraud and Irregularity identified for 2015/16.
- CIPFA The Local Government Counter Fraud and Corruption Strategy 2016-2019 and Companion document.

be noted.

**Audit Committee**

**29 July 2016**



**2015/16 Final Outturn for General Fund,  
Housing Revenue Account and  
Collection Fund**

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**Report of Paul Darby, Interim Corporate Director Resources**

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**Purpose of the Report**

- 1 To provide Audit Committee with details of the final outturn for the General Fund, Housing Revenue Account (HRA) and Collection Fund for 2015/16.

**Background**

- 2 The 2015/16 unaudited Statement of Accounts includes a summary of the 2015/16 final financial outturn. The attached report presented to Cabinet on 13 July 2016 provides a more detailed review of the final outturn position for both revenue and capital and the Collection Fund.

**Recommendation and reasons**

- 3 Members are asked to note the 2015/16 final outturn position on the General Fund, HRA and Collection Fund.

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**Contact: Ian Herberson Tel: 03000 261861**

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## **Appendix 1: Implications**

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### **Finance –**

There are no direct financial implications arising for the Council as a result of this report.

### **Staffing -**

None

### **Risk -**

None

### **Equality and Diversity -**

None

### **Accommodation -**

None

### **Crime and Disorder -**

None

### **Human Rights -**

None

### **Consultation -**

None

### **Procurement -**

None

### **Disability Discrimination Act -**

None

### **Legal Implications -**

None



## **Cabinet**

**13 July 2016**

### **2015/16 Final Outturn for General Fund, Housing Revenue Account and Collection Fund**



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#### **Report of Corporate Management Team**

**Paul Darby, Interim Corporate Director Resources**

**Councillor Alan Napier, Cabinet Portfolio Holder for Finance**

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#### **Purpose of the Report**

- 1 To provide Cabinet with details of the revenue and capital outturn for both the General Fund and the Housing Revenue Account (HRA) for 2015/16, plus the 2015/16 outturn for the Collection Fund in respect of Council Tax collection and Business Rates collection.

#### **Background**

- 2 The financial outlook for the Council and the whole of local government remains extremely challenging. The Council has faced significant government funding reductions since 2010/11 with reductions forecast to continue until at least 2019/20.
- 3 The Chancellor of the Exchequer's Autumn Statement published on 25 November 2015, announced an overall improvement in the public finances compared to their previous forecasts which afforded some protection for unprotected government departments. Unfortunately this protection was not given to local government and in cash terms, the average reduction in budgets for unprotected government departments over the 2016/17 to 2019/20 period is circa 6%, whereas the reduction for local government over the same period is circa 53% in cash terms. The Chancellor of the Exchequer's March 2016 Budget reported a subsequent deterioration in the public finances although assurances have been provided that local government settlements will not be affected across the next four years.
- 4 It is apparent therefore that the financial landscape for local authorities will continue to be extremely challenging until at least 2019/20, resulting in the longest period of austerity in modern times. By 31 March 2016 the Council will have delivered savings of £153million since 2011. Updated forecasts included in MTFP (7) show that savings required for the period 2016/17 to 2019/20 will be £104million.
- 5 On 25 February 2015 County Council agreed a net revenue budget of £409.873 million for 2015/16. Factoring in cuts in Government grant, inflation and other budget pressures the delivery of £16.283 million of savings was required in 2015/16 in order to deliver a balanced budget.

- 6 Quarterly forecast outturn reports have been considered by Cabinet throughout the 2015/16 financial year and detailed reports on individual Service Groupings have also been considered by the various Overview and Scrutiny Committees.
- 7 This final outturn for 2015/16 has been determined as part of the production of the Annual Statement of Accounts. During the process of finalising the Statement of Accounts, the Interim Corporate Director Resources will be required to make a number of technical decisions in the best financial interests of the Council. Such decisions will be fully disclosed in the Statement of Accounts.

### **General Fund Outturn**

- 8 This section of the report details the following:
- (i) Cash Limit Outturn for Service Groupings;
  - (ii) Overall Revenue Outturn for the General Fund with summarised Service Grouping commentary;
  - (iii) Overall Capital Outturn of the General Fund with summarised Service Grouping commentary;

### **Cash Limit Outturn for Service Groupings**

- 9 The overall outturn for the Council is shown in Appendix 2, which details how the cash limit outturn for each Service Grouping is calculated. Two key elements have been excluded from the Service Grouping outturn when calculating the cash limit outturn as detailed below:

(i) **Sums Outside the Cash Limit**

Some expenditure and income is excluded from the Cash Limit for a number of reasons. Examples of these are detailed below:

- Items not controlled by the Service Groupings e.g. technical accounting entries such as Capital Charges and Central Administration Recharges actioned at year end.
- Exceptional items and expenditure pressures which were not accounted for in the Service Grouping base budget build and which are covered by contingencies or earmarked reserves held corporately e.g. Flooding Costs, North East Devolution Poll costs and redundancy and early access costs linked to restructuring activity to achieve Medium Term Financial Plan (MTFP) savings proposals.

(ii) **Use of or Contribution to Earmarked Reserves**

Sums that Service Groupings have utilised or contributed to Earmarked Reserves, have been excluded from their outturn position in order to calculate their year end cash limit position.

- 10 After taking into account the above exclusions, through tight budgetary control by managers and robust delivery of financial savings targets, including the achievement of future years savings in advance, all Service Groupings have generated a cash limit underspend in 2015/16.
- 11 The 2015/16 cash limit position for each Service Grouping is detailed in the table below:

| Type of Reserve                    | Opening Balance as at 1 April 2015 | Budgeted use at 1 April 2015 | Movement during 2015/16 |                             | Closing balance as at 31 March 2016 |
|------------------------------------|------------------------------------|------------------------------|-------------------------|-----------------------------|-------------------------------------|
|                                    |                                    |                              | Use of reserve          | Contribution to (-) reserve |                                     |
|                                    | £m                                 | £m                           | £m                      | £m                          | £m                                  |
| <b>Service Grouping Cash Limit</b> |                                    |                              |                         |                             |                                     |
| Assistant Chief Executive          | -0.773                             | 0.000                        | 0.755                   | -0.258                      | -0.276                              |
| Children and Adults Services       | -9.441                             | 0.249                        | 6.381                   | -10.691                     | -13.502                             |
| Neighbourhoods                     | -5.076                             | 0.080                        | 3.277                   | -0.860                      | -2.579                              |
| Regeneration and Econ Development  | -3.216                             | 0.000                        | 1.241                   | -1.816                      | -3.791                              |
| Resources                          | -3.857                             | 0.108                        | 3.016                   | -1.419                      | -2.152                              |
| <b>TOTAL CASH LIMIT RESERVE</b>    | <b>-22.363</b>                     | <b>0.437</b>                 | <b>14.670</b>           | <b>-15.044</b>              | <b>-22.300</b>                      |

## Revenue Outturn

- 12 Appendix 2 provides a more detailed Outturn position for the Council's General Fund by Service Grouping. In addition, Appendix 3 provides a detailed Outturn position for the Council by type of expenditure and income. The table below provides a summary of the final outturn position:

|   | £m      | £m             |
|---|---------|----------------|
| Gross Expenditure                       |         | 1,429.163      |
| Less:                                   |         |                |
| Gross Income                            |         | -1,023.243     |
| <b>Net Expenditure</b>                  |         | <b>405.920</b> |
| Financed by:                            |         |                |
| Council Tax                             | 174.137 |                |
| Collection Fund Surplus                 | 0.500   |                |
| Start Up Funding Assessment             | 215.541 |                |
| New Homes Bonus                         | 8.697   |                |
| Section 31 Grant                        | 5.173   |                |
| Education Services Grant                | 6.006   |                |
| Net use of Cash Limit Reserves          | 0.063   |                |
| Net Contribution to Earmarked Reserves: |         |                |
| Schools and DSG                         | -1.658  |                |
| Non-Schools                             | -25.491 |                |
| Net Contribution to the General Reserve | -0.204  |                |
| Net Contribution from HRA Reserve       | 23.156  |                |
| <b>Total Financing</b>                  |         | <b>405.920</b> |

13 The final outturn position for the Council's General Reserve is detailed below:

|  | <b>£m</b>      |
|--|----------------|
| Opening Balance as at 1 April 2015                         | -28.897        |
| Add:   |                |
| Net Contribution to the General Reserve in 2015/16         | -0.204         |
| <b>Closing General Reserve Balance as at 31 March 2016</b> | <b>-29.101</b> |

14 The General Reserve balance carried forward of £29.101 million is within the Council's General Reserves policy of retaining between 5% and 7.5% of the Net Budget Requirement, which in cash terms is between £20.08 million and £30.11 million. The £29.101million balance at 31 March 2016 equates to 7.25% of the 2016/17 Net Budget Requirement. The main reasons why the General Reserve has increased are detailed below:

- Interest and Investment income - £1.536 million more than budgeted;
- Section 31 Grant income - £0.175 million more than budgeted;
- Corporate Costs - £0.258 million less than budgeted;
- Contingencies - £3.194 million less than budgeted offset by;
- Interest payable and similar charges - £0.097 million more than budgeted;
- A transfer of £4.844 million to the Pension Deficit Reserve during the year, in lieu of a possible one off payment into the pension fund in 2016/17 to reduce future liabilities and MTFP pressures associated with Pension Deficit payments in MTFP (7).

15 Appendix 4 details the movement on Earmarked Reserves during 2015/16. The position at the end of the year is as follows:

### General Fund

|  | <b>Earmarked Reserves</b> | <b>Cash Limits</b> | <b>TOTAL</b>    |
|--|---------------------------|--------------------|-----------------|
|  | <b>£m</b>                 | <b>£m</b>          | <b>£m</b>       |
| Opening Earmarked Reserve Balances as at 1 April 2015  | -157.584                  | -22.363            | -179.947        |
| Less contribution to (-) / from (+) Earmarked Reserves | -25.491                   | +0.063             | -25.428         |
| <b>Earmarked Reserve Balance as at 31 March 2016</b>   | <b>-183.075</b>           | <b>-22.300</b>     | <b>-205.375</b> |

- 16 The increase in respect of earmarked reserves indicated in the table above is mainly due to £23.156 million of the HRA Reserve reverting to the County Council General Fund earmarked reserves. Further details are contained in paragraphs 70 to 72.

## Schools

|  | <b>Schools Balances</b> | <b>Centrally Held DSG</b> | <b>TOTAL</b>   |
|--|-------------------------|---------------------------|----------------|
|  | <b>£m</b>               | <b>£m</b>                 | <b>£m</b>      |
| Opening Schools Balances as at 1 April 2015            | -24.246                 | -10.364                   | -34.610        |
| Less contribution to (-) / from (+) Earmarked Reserves | +0.163                  | -1.821                    | -1.658         |
| <b>Schools Balance as at 31 March 2016</b>             | <b>-24.083</b>          | <b>-12.185</b>            | <b>-36.268</b> |

## Service Grouping Commentary

- 17 A summary of the outturn for each service grouping is provided below. Detailed outturn reports will be provided to the relevant Overview and Scrutiny Committees.

### Assistant Chief Executive (ACE)

- 18 The 2015/16 outturn for the Assistant Chief Executive's Service is a cash limit underspend of £0.258 million. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year end capital accounting entries and use of / contributions to earmarked reserves.
- 19 The cash limit outturn position compares to the previously forecast position at Quarter 3 of a cash limit underspend of £0.222 million, therefore the actual outturn is broadly in line with the previously forecast position.
- 20 The outturn underspend is a managed position, reflecting the proactive management of activity by Heads of Service across ACE throughout the year to remain within the cash limit. The outturn position is accounted for as follows:
- Partnerships and Community Engagement - £109,000 underspend, primarily due to a managed underspend position on employee and supplies and services costs.
  - Planning and Performance - £37,000 underspend, primarily due to proactive management of employee and supplies and services budgets.

- Policy and Communications - £113,000 underspend, predominantly resulting from a £76,000 managed underspend on employee related costs across the service together with an £37,000 underspend on supplies and services budget through tight control of expenditure in this area.
- 21 Further to the quarter 3 forecast of outturn report, the following items have been excluded from the outturn in arriving at the cash limit outturn position:
- £0.498 million – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2016/17. The main contributions are £0.186 million to the AAP reserve, £0.207 million to the Members Neighbourhoods reserve and £0.080 million to the Community reserve.
  - £1.226 million – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration.
- 22 Taking the outturn position into account, including items outside the cash limit, transfers to and from earmarked reserves, the cash limit reserve to be carried forward for ACE is £0.276 million.

### **Children and Adults Services (CAS)**

- 23 The 2015/16 outturn for Children and Adults Services (CAS) is a cash limit underspend of £10.691million. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from the strategic reserve, year-end capital entries and contributions to and from earmarked reserves.
- 24 The cash limit outturn position compares to the previously forecast position of £10.365 million underspend, therefore the actual outturn is broadly in line with the previously forecast position.
- 25 The outturn is a managed position, reflecting the proactive management of activity by Heads of Service across CAS to remain within the cash limit. The main reasons accounting for the outturn position are as follows:
- Early achievement of a number of future year MTFP management and support service proposals, together with the careful management and control of vacancies and general budgets across the Adults area of the service has created a net underspend for the year of approximately £6.5 million.
  - Net spend on adult care packages was approximately £2.0 million under budget, which represents circa 2% of the total adult social care budget. Care budgets are closely monitored to assess the impact of demographic and procedural/operational changes. Ongoing savings have arisen from the consistent and effective application of the existing eligibility criteria. MTFP savings proposals are already in place to reflect the net reduction in expenditure on packages of care in 2016/17 and in 2017/18.

- A review of short term funds across adult care produced an additional circa £3.0 million of monies available to support future pressures. £1.1 million of this one-off sum is to be carried forward to future years for specific projects, with the balance contributing to the CAS cash limit reserve in 2015/16.
- The Education Service was £0.462 million under budget in the year. Expenditure on Home to School Transport was over budget by £0.820 million, an improved position on the forecast at quarter 3, offset by savings across the School Places and Admissions Team, Education Development Service and Early Years Team mainly relating to employee spend through vacancies, as well as additional income generation in the Education Psychology area of Special Educational Needs (SEN) and Disability teams.
- Children's Services were over budget by circa £0.200 million, as a result of high demand and increased costs of £1.65 million for 'Looked After Children' placements and Special Guardianship Orders, mitigated by early achievement of MTFP savings connected with the closure of two children's residential homes of £0.754 million. As a result of high caseloads and staff vacancies increased agency staffing costs were incurred offset by additional non recurrent Public Health investment income within the One Point Service. Non recurrent savings and additional income achieved by Children Services in 2015/16 totalled £1.38 million.
- Secure Services are operated on a trading basis and therefore report a breakeven position in terms of the CAS cash limit, however, it should be noted that the service incurred additional one off revenue expenditure in 2015/16 of £0.400 million relating to agency costs and reduced trading income while extensive capital works were undertaken that was funded from the trading reserve at year end. The Curriculum Professional Development and Education Development Services in the Education Service also operate on a trading account basis and these returned surpluses of £0.167 million and £0.156 million respectively, which have also been transferred to earmarked reserves at year end.
  - Public Health net overspend against the Public Health Grant in 2015/16 was £29,000 and this has been funded from the earmarked Public Health reserve at year end.

26 Further to the quarter 3 forecast outturn report, the following items have been excluded from the outturn in arriving at the cash limit at year end:

- £0.747 million relates to contributions to and from earmarked reserves and cash limit reserves to support specific projects in future years, including:
  - a net use of the Social Care Reserve of £0.189 million to fund future social care activity;

- £0.501 million contribution to the Continuous Professional Development reserve in Quarter 4 against a use of reserves of £0.334 million in earlier quarters, resulting in a net contribution of £0.167 million in the year;
  - £0.142 million transferred from the Tackling Troubled Families reserve to fund additional activity related to Stronger Families;
  - a £0.127 million contribution to the various Education trading account reserves in Quarter 4 in addition to contributions of £0.029 million in earlier quarters, resulting in a contribution of £0.156 million in the year.;
  - a £0.055 million use of the Education reserve in respect of SEND Reform grant funds;
  - a £0.031 million use of cash limit to fund additional costs relating to a legal case;
  - a £0.177 million contribution to the Transformation Reserve for planned future expenditure;
  - a £0.479 million contribution to the Public Health reserves;
  - a £0.130 million of the Aycliffe Secure reserve was accessed in Quarter 4 leading to a total use of reserves of £0.400 million in the year;
  - A contribution of £0.010 million to a new reserve created to fund speech, language and communication resources within the Youth Offender Service.
- £1.201 million net contribution to reserves in relation to equal pay, ER/VR costs and insurance recharges.
  - £1.307 million of sums outside the cash limit including adjustments associated with capital charges, centralised repairs and maintenance and central administration recharges.

27 Taking the outturn position into account, the cash limit reserve to be carried forward for Children and Adults Services is £13.502 million at 31 March 2016.

### **Dedicated Schools Grant**

28 The Dedicated Schools Grant (DSG) allocation for 2015/16 was £356.636million, however due to schools converting to academies and reduction in high needs DSG allocations for payments made direct by the Education Funding Agency the budget was reduced by £74.623 million in year to £282.013 million. A further £0.193 million was received in relation to an Early Years adjustment for the previous financial year resulting in a final DSG allocation of £282.206 million. This includes both the delegated schools budget and the centrally retained DSG budget.

29 The total revised delegated budget for maintained schools (including early years' providers) was £259.314 million in 2015/16.

30 Where schools spend more or less than their delegated budgets, the difference either reduces or increases their accumulated balance. Schools related balances were £24.083 million at 31 March 2016, a reduction of £0.163 million compared to last year. The changes in balances were:



|                         | <b>Balance at<br/>31 March<br/>2015<br/>£</b> | <b>Movement<br/>in Year<br/>£</b> | <b>Balance at<br/>31 March<br/>2016<br/>£</b> |
|-------------------------|---|-----------------------------------|---|
| Schools balances        | (24,098,055)                                  | 218,291                           | (23,879,764)                                  |
| Communities of Learning | (525,355)                                     | 131,530                           | (393,825)                                     |
| Loans to schools        | 377,772                                       | (186,894)                         | 190,878                                       |
| <b>Total</b>            | <b>(24,245,638)</b>                           | <b>162,927</b>                    | <b>(24,082,710)</b>                           |

- 31 The Quarter 3 forecast of school balances was £17.562 million, £6.318 million less than the actual balances at 31 March 2016. The majority of schools ended the year with a higher balance than their Q3 forecasts, despite these forecasts being challenged by Schools Finance Officers in preparing the forecasts.
- 32 There are 244 maintained schools, of which 179 ended the year with a higher balance than the Quarter 3 forecast, increasing their balances by a total of £7.685 million. There were 65 schools where the balance was less than the Quarter 3 forecast: the total amount by which they increased spending compared to the forecast was £1.367 million; four of these schools are now in deficit.
- 33 At 31 March 2016 there were 10 schools with a deficit balance, with a total deficit of £2.736 million. Three of these schools are secondary schools, with combined deficits of £2.586 million. There are issues relating to the long term viability that are being looked into with these schools and officers from CAS and Resources are in discussion with the schools about ways to improve their financial position in the long term. All three schools had a deficit balance at 31 March 2015 and set a deficit budget for 2015/16, but during the year were able to reduce net expenditure by £0.412 million compared to their original budgets. The other 6 schools have deficits totalling £0.150 million and officers are working with these schools to ensure that they recover these deficits in 2016/17.
- 34 A number of schools are facing shortfalls in funding for 2016/17 and are planning staff reductions to balance their budgets in year. The increase in balances compared to the Q3 forecasts is in part a reflection of caution on the part of schools in going ahead with spending in advance of confirmation of 2016/17 funding and the uncertainties about the future of school funding more generally.
- 35 The outturn position for the centrally retained element of the DSG was an in year under spend of £1.821 million in year. The pressure area for the centrally controlled element of the DSG in 2015/16 was capitalised repairs and maintenance (£0.366) million. This has been offset by underspends in the Education Service teams dealing with SEND children and school improvement of £2.187 million. The outturn position compares to a previously forecast position at quarter 3 where expenditure was forecast to be in line with budget.

- 36 The earmarked reserve relating to centrally retained DSG carried forward at 31 March 2016 is £12.186 million, of which £1.502 million is earmarked for Schools relating to the Growth Fund, School Improvement and unallocated formula funding; £2.152 million has been used to set schools budgets in 2016/17; £2.94 million relates to Early Years provision, £0.422 million for outstanding commitments for the capital programme and the balance of £5.170 million will be available to support continuing High Needs pressures in 2016/17.

### **Neighbourhood Services**

- 37 The 2015/16 outturn for Neighbourhood Services is a cash limit underspend of £0.860 million. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year-end capital accounting entries and use of / contributions to earmarked reserves.
- 38 The cash limit outturn position compares to the previously forecast Quarter 3 position of a cash limit underspend of £1.290 million.
- 39 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across Neighbourhoods to bring spend within the cash limit. The main reasons accounting for the outturn position are as follows:
- Direct Services - £1.060 million underspend. The main reasons for this were that there was an overachievement in the surplus generated by Building Services of approximately £0.754 million due to the level of turnover being significantly higher than originally anticipated. In addition there was an underspend of £0.600 million relating to savings in premises costs of Administration Buildings mainly relating to the early achievement of future MTFP savings. These underspends were partially offset by a contribution to an earmarked reserve of £0.300 million for capital works in cemeteries.
  - Technical Services £0.105 million overspend. Within this overall position, there was an overspend of circa £1 million on highways maintenance relating to additional policy led expenditure in relation to Category 1 and 2 defects, offset by increased income of approximately £0.9 million that was generated within Design Services.
  - Environment, Health and Consumer Protection - £0.187 million underspend, which was largely attributable to underspends on employees, supplies and services in Health Protection, Consumer Protection and Environmental Protection, as a result of the early achievement of future MTFP savings.
  - Culture & Sport £0.255 million overspend. The main reason for this is a contribution to earmarked reserves to fund additional capital works associated with a proposed cinema partnership arrangement. This capital work will greatly enhance the cinema offer and result in additional revenue income in future years.

- Within Strategic Waste there have been significant increases in the Materials Recycling Facility costs (£0.500 million) as a result of a national reduction in the market value of recycled materials. A new contract for this service has been procured recently and this will reduce the budget pressure going forward. This overspend is being offset by savings on employee and supplies and services (£0.488 million) across all other areas of Projects & Business Services.
- 40 Further to the quarter 3 forecast outturn report, the following items have been excluded from the outturn in arriving at the cash limit:
- £2.327 million – relates to a net contribution to earmarked reserves and cash limits to support specific projects in 2016/17, including a £1.430m contribution to earmarked reserves to support one off expenditure in Highways; a £0.430m contribution to earmarked reserves in respect of Culture and Sport; and a £0.405m contribution to earmarked reserves in respect of Buildings and Grounds Maintenance, and Street Cleaning.
  - The movement on Reserves includes a contribution of £0.729 million to the Winter Maintenance Reserve that was established at the end of 2013/14. This contribution represents the additional underspend since Quarter 3 on Winter Maintenance activities during 2015/16, and reflects the relatively mild conditions that were experienced during the last winter. The Winter Maintenance Reserve (now £3.074 million) will be utilised when severe winter or weather events occur and the annual budget is insufficient to meet the unavoidable costs in this area.
  - £0.582 million net contribution to reserves in relation to ER/VR costs, Job Evaluation Settlement and Insurance recharges.
  - £0.310 million relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration recharges.
- 41 Taking the outturn position into account, the Cash Limit Reserve to be carried forward for Neighbourhood Services is £2.579 million.

### **Regeneration and Economic Development (RED)**

- 42 The 2015/16 outturn for Regeneration and Economic Development is a cash limit underspend of £1.816 million. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year end capital accounting entries and use of contributions to earmarked reserves.
- 43 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £1.521 million.
- 44 The main reasons accounting for the outturn position is as follows:
- Strategy Programmes and Performance - £0.076 million saving on salary costs due to vacancies, maternity leave and staff working reduced hours.

- Economic Development and Housing - £0.447 million underspend primarily due to MTFP savings made early in the housing solutions service and additional rental income in the Gypsy Roma Traveller Service.
- Planning and Assets - £0.527 million underspend which is broken down into a £0.668 million underspend in the Planning service and a £0.141 million overspend on Assets. The underspend in the Planning service primarily results from an increase in planning fee income, from vacant posts and other efficiency savings on running costs offset by a shortfall in building control fees. Assets is experiencing income pressures mainly from Newgate Street in Bishop Auckland, the Beveridge Arcade in Newton Aycliffe, the Brackenhill Centre in Peterlee and Millennium Square in Durham City where rental income is not being achieved.
- Transport - £0.765 million underspend comprising MTFP savings on bus contracts made early and additional income and planned underspends in Care Connect.

45 Further to the Quarter 3 forecast outturn report, the following items have been excluded from the outturn in arriving at the cash limit:

- £0.730 million – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2015/16.
- £0.170 million – relates to a net contribution to reserves and cash limits. A sum of £0.865 million was drawn from reserves to support specific expenditure in 2015/16 and a sum of £1.595 million was transferred to reserves and cash limits. The major contributions to reserves include: £0.434 million reflecting accommodation reserve not utilised in the year; £0.190 million for income and grants received by the housing solutions service during the year that will be carried forward for future use; £0.166 million contribution to a Business Durham Programme Reserve to manage income fluctuations in the property portfolio; £0.139 million arising from income received that will be earmarked for family intervention projects; £0.124 million in relation to North Pennines AONB; and there were a range of other contributions less than £0.100 million each that made up the balance.

46 Taking the outturn position into account, the Cash Limit reserve to be carried forward for Regeneration and Economic Development is £3.791 million.

## **Resources**

47 The 2015/16 outturn for Resources is a cash limit underspend of £1.419 million. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year end capital accounting entries and use of / contributions to earmarked reserves.

48 The cash limit outturn position compares to the previously forecast position at Quarter 3 of a cash limit underspend position of £1.442 million.

49 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across Resources throughout the year to remain within the cash limit. The outturn position is accounted for as follows:

- Corporate Finance was underspent by £0.136 million. Some £0.100 million relates to managed underspends on employees following a restructure to achieve MTFP savings early. There was also an overachievement of income amounting to £0.086 million, offset by a £0.049 million overspend on supplies and services (including additional VAT advice).
- Financial Services was underspent by £0.405 million, consisting of planned underspends of £0.375 million for employees, including some resulting from the early achievement of MTFP savings. There was also a net underspend in other areas, with cost increases more than offset by increased income from SLAs, grants and contributions.
- Human Resources was underspent by £0.029 million, mainly from an underspend position for employees related costs.
- ICT Services was underspent by £0.079 million, where the early achievement of MTFP savings meant supplies and services were underspent by £0.085 million. Underspend positions for other areas helped fund a £0.103 million planned overspend for the Digital Durham project that is managed by ICT. An in year surplus on trading activity within ICT was transferred to ICT Trading Account earmarked reserve at year end.
- Internal Audit was underspent by £0.151 million. The close management of vacancies produced £0.082 million of these savings against employee budgets linked to early achievement of future years MTFP savings, the other significant variance arising from a £0.059 million increase in income, from government grant and the Police SLA.
- Legal and Democratic Services was underspent by £0.578 million, including £0.269 million from employees, from a restructure in July to achieve MTFP savings, with other underspends on supplies and services (£0.107 million) and overachieved income (£0.159 million).
- Service Management was underspent by £0.040 million, through income generated from providing services to Northumberland County Council under a collaborative arrangement.

50 Further to the quarter 3 forecast of outturn report, the following items have been excluded from the outturn in arriving at the cash limit outturn position:

- a £0.239 million contribution to the Oracle Development reserve to provide a resource for system development in 2016/17 and beyond.
- a £0.065 million contribution to the Human Resources reserve for temporary budget support following a loss of income.

- a £0.011 million contribution from Discretionary Housing Payment Grant reserve to meet a shortfall in grant from the DWP.
  - a £0.395 million contribution to the ICT Trading reserve to fund the replacement of the Childrens Services software package, to deliver ongoing MTFP savings.
  - a £0.245 million contribution from the DWP Housing Benefit Subsidy reserve to fund an increase in the provision for bad debts in respect of the overpayment of housing benefit.
  - a contribution of £0.200 million to the Revenues and Benefits Reserve to support the development of systems to achieve service priorities.
  - a £0.004 million contribution to the Welfare Rights reserve to support the continued provision of the Welfare Rights service.
  - £1.516 million net contribution from reserves in relation to equal pay, ER/VR costs and insurance recharges.
  - £1.874 million – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration recharges.
- 51 Taking the outturn position into account, including items outside the cash limit and transfers to and from earmarked reserves, the cash limit reserve to be carried forward for Resources is £2.152 million.

### **Resources - Centrally Allocated Costs (Corporate Costs)**

- 52 The 2015/16 outturn for Resources – Centrally Administered Costs is a cash limit underspend of £0.258 million. This takes into account adjustments for sums outside the cash limit such as the use of / contribution to earmarked reserves.
- 53 The cash limit outturn position compares to the previously forecast position at Quarter 3 of a cash limit underspend of £0.182 million.
- 54 The outturn position reflects underbudget positions on payment card charges (£0.102 million), audit fees (£0.068 million), corporate subscriptions (£0.013 million), expenses associated with raising loans (£0.041 million), an over recovery of income (£0.015 million) and other variances (£0.019 million).
- 55 Further to the Quarter 3 forecast of outturn report, the following item has been excluded from the outturn in arriving at the cash limit outturn position:
- a £0.175 million contribution from the Welfare Assistance Fund reserve to deliver the Council's Welfare Assistance Scheme.
  - a £0.420 million net contribution from reserves in relation to insurance recharges. £0.187 million – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration.

### **Central Budgets**

### **Interest and Investment Income**

- 56 There has been an overachievement of investment income of £1.536m which is due to the higher than anticipated levels of cash balances held during 2015/16. This is due in the main to lower than expected use of reserves and re-profiling of capital expenditure originally anticipated to be expended in 2015/16.

## 2015/16 Capital Outturn

### General Fund Capital Programme

- 57 The original General Fund (GF) capital budget for 2015/16, taking into account the budgets approved by Council on 25 February 2015 and adjustments for re-profiling of underspends at 2014/15 year end was £167.216 million. This was agreed by Cabinet on 15 July 2015.
- 58 Throughout the year, the Capital Member Officer Working Group (MOWG) has continually reviewed progress in delivering the capital programme to take into account changes in planning and delivery timescales and analysis of changes in demands on resources. Regular updates to the capital programme were reported to and approved by Cabinet as part of the quarterly budgetary control reports in year. Requests for re-profiling capital programme underspends at 31 March 2016 have also been considered by MOWG.
- 59 The following table summarises the revised capital budgets, taking into account revisions considered by MOWG and agreed by Cabinet throughout the year, together with the outturn position for each service area. The table also details the action that has been taken with regard to re-profiling and other budget adjustments at year end, which were approved by MOWG on 24 May 2016.

### General Fund Capital Programme 2015/16

| Service Grouping               | Original Budget 2015/16 | Revised Budget 2015/16 | 2015/16 Outturn | Variance      | Additions/ Deletions From Budget | Reprofiling    |
|--------------------------------|-------------------------|------------------------|-----------------|---------------|----------------------------------|----------------|
|                                | £m                      | £m                     | £m              | £m            | £m                               | £m             |
| Assistant Chief Executive      | 5.775                   | 3.990                  | 1.454           | 2.536         | 0.037                            | -2.314         |
| Children and Adults Services   | 41.184                  | 40.682                 | 34.868          | 5.814         | -0.969                           | -4.425         |
| Neighbourhoods                 | 41.748                  | 40.903                 | 37.721          | 3.182         | 2.573                            | -5.968         |
| Regeneration and Economic Dev. | 64.674                  | 34.543                 | 31.993          | 2.550         | -0.836                           | -2.181         |
| Resources                      | 13.835                  | 11.616                 | 9.385           | 2.231         | -                                | -2.231         |
| <b>Total</b>                   | <b>167.216</b>          | <b>131.734</b>         | <b>115.421</b>  | <b>16.313</b> | <b>0.805</b>                     | <b>-17.119</b> |

- 60 In addition to underspends requested to be carried forward into 2016/17 to fund the completion of capital schemes, the variances in the table above also include some overspends on projects that span multiple financial years, which resulted from acceleration of project delivery timescales. In such instances

the 2016/17 budgets have been reduced to offset the increased activity in 2015/16. All re-profiling has now been included in the updated capital budgets for 2016/17 – 2019/20.

- 61 The Capital Programme is financed via various funding sources including grants, capital receipts, revenue contributions, contributions from reserves and borrowing. The financing of the 2015/16 Outturn is detailed in the following table:

#### Financing – General Fund Capital Programme 2015/16

| Financed by              | 2015/16 Outturn |
|--------------------------|-----------------|
|                          | £m              |
| Grants and Contributions | 52.172          |
| Revenue and Reserves     | 23.770          |
| Capital Receipts         | 10.183          |
| Borrowing                | 29.296          |
| <b>Total</b>             | <b>115.421</b>  |

#### Service Grouping Commentary

- 62 The primary reasons for the net capital underspending of £16.313 million (circa 12% under budget at year end) are set out below:

#### Assistant Chief Executive (ACE)

- 63 The underspend of £2.536 million within ACE is mainly due to:

- Members Budgets – Underspend £1.998 million.**

Elected Members are encouraged to invest their annual allocation within each financial year. Current guidance states that uncommitted funds may be carried forward but not beyond an elected Member's term of office.
- Community Buildings - Underspend £0.398 million.**

Progress on the community buildings capital works programme has been delayed to allow time for the completion of new lease agreements for the buildings before works commence.
- AAP – AAP Area Budgets - Underspend £0.144 million.**

Each AAP is encouraged to invest their annual allocation within each financial year. Current guidance states that uncommitted funds may only be carried forward where a clear spending plan has been identified.

#### Children and Adults Services (CAS)

- 64 The underspend of £5.814 million for CAS is mainly due to:



- **BSF Schemes** – Underspend £1.461million.  
Relates mainly to the milestone payments for work at Consett Academy along with related ICT projects which are yet to be finalised.
- **Devolved Formula Capital** – Underspend £1.745 million.  
Work has been delayed awaiting individual schools to finalise capital investment plans.
- **School Related** – Underspend £2.751million.  
Mainly due to the delay between when budgets are allocated to schemes as they are commissioned and when the schemes are completed in major school holidays to minimise disruption.
- **Public Health** – Overspend £0.118 million.  
The overspend relates to additional work being carried out at Saddler House in 2015/16 earlier than originally anticipated and which will be met from the reprofiled 2016/17 budget.
- **Secure Services** – Overspend of £0.316 million.  
Mainly due the additional work required on the Door Replacement Project and as a result of the upgrade to the telephone system in this facility. The telephony upgrade received funding from the Education Funding Agency.

### Neighbourhood Services

65 The underspend of £3.182 million for Neighbourhood Services is mainly due to:

- **Direct Services** – Underspend £1.050 million. This is primarily due to revisions to the delivery date of vehicles ordered during 2015/16 with delivery expected in 2016/17 (£0.531 million) and the delay in the start of the Bereavement improvement projects (£0.198 million).
- **Culture and Sport** – Underspend £0.452 million. The under spend in this area is due mainly to the reprofiling of works to Wharton Park Project of £0.290 million, which was completed in the current financial year.
- **Projects and Business** – Underspend £1.357 million. Mainly due to an under spend on the CRM project of £0.767 million, which is programmed over two years. The majority of the scheme will now be completed in 2016/17. The remaining underspend of £0.504 million relates to some delays in Waste Management schemes where site investigation works have not yet been completed, and also due to the requirement to provide data to the Environment Agency before the St Bede's project can commence.

- **Technical Services** – Underspend £0.323 million. Mainly due to the under spend on Seaham North Pier of £0.675 million and £0.124 million on the Wolsingham Depot project along with an overspend on the Street Lighting Energy Reduction programme of £0.503 million for which budget has been brought forward from 2016/17.

## **Regeneration and Economic Development (RED)**

66 The underspend of £2.550 million for RED is mainly due to:

- **Economic Development & Housing** – Underspend £0.673 million. Primarily the outturn position is due to a combination of under and over spending on a the major schemes within this area:
  - Barnard Castle Vision £0.100 million – There have been delays in progressing works on paths and procuring contractors for historic landscape works (Bowes Castle and Headlam Pack Horse bridge). The majority of contracts are now let and progressing.
  - Housing Renewal £0.329 million – Relates mainly to the fact that the issue of loans is a lengthy process and whilst applications are in place, actual expenditure was lower than anticipated.
  - Chapter Homes £0.700 million – The variance of expenditure within the planned programme reflects a reduced need for the development company to draw down equity and loan funding from the Council in 2015/16 with certified construction valuation requests from the contractor being lower than initially anticipated.
  - The above underspends are reduced by greater spend on Disabled Facilities Grants in 2015/16 of £0.206 million and work at NETPark of £0.333 million, for which budget has been brought forward from 2016/17.

- **Planning and Assets** – Underspend £0.602 million. Relates mainly to the School Demolition Programme where delays in obtaining DfE approval and vacating the sites have delayed the design and tendering process resulting in an underspend of £0.810 million. This also includes contract savings of £0.367 million which will be used to fund future demolitions. However, additional schemes within The Structural Capitalised Maintenance Non- Schools programme have been completed earlier than anticipated resulting in a reprofiling of budget from 2016/17 into 2015/16.
- **Transport** – Underspend £1.031 million. Primarily due the Villa Real road realignment scheme being delayed following land contamination issues and redesign requirements, which led to an underspend of £0.561 million. The Pelaw Wood Land slip project was also delayed due to further land movement and design issues for a number of schemes to improve cycle and pathways have also contributed the underspend in this area.

## Resources

67 The underspend of £2.231 million for Resources is mainly due to:

- **Digital Durham** - schemes have been completed but at a lower cost than originally anticipated resulting in an underspend of £1.486 million. The remaining underspend relates to various ICT projects which have been delayed due to either procurement issues or other commitments. These schemes have been reprofiled into 2016/17 for completion.

## Capital Receipts

68 Income from the sale of assets and other capital income streams (capital receipts) are utilised to support the capital budget. The 2015/16 budget for income from capital receipts was £16.631 million. The final outturn position is shown in the following table:

| Source  | Sum Received<br>2015/16 |
|---|-------------------------|
|   | <b>£m</b>               |
| Land Sales  | 6.424                   |
| Land Sales via Durham Villages Regeneration Limited | 0.941                   |
| VAT Shelter – Livin                                 | 0.783                   |
| VAT Shelter – Derwentside Homes                     | 0.390                   |
| VAT Shelter – Teesdale                              | 0.042                   |
| VAT Shelter – County Durham Housing Group           | 0.757                   |
| Preserved 'Right to Buy' Sales                      | 0.604                   |
| Vehicle Sales                                       | 0.236                   |
| <b>Total</b>  | <b>10.178</b>           |
| Less: Income Budget                                 | 16.631                  |
| <b>Underachievement of Capital Receipts</b>         | <b>-6.453</b>           |

- 69 The main reason for the underachievement on capital receipts in 2015/16 related to the planned sale of land at Whinney Hill in Durham. There have been delays in finalising the sale of land on this site due to delays in the developer agreeing a suitable scheme for the site. It is hoped that this sale will be finalised in 2016/17 which should result in an over recovery against the capital receipts income target in this year.

## **Housing Revenue Account (HRA) – 2015/16 Revenue Outturn**

### **Revenue Outturn**

- 70 On 13 April 2015, the Council transferred its housing stock of 18,500 dwellings to the County Durham Housing Group Ltd. Consent was received from the Secretary of State to close down the HRA any time from 30 April 2015 onwards as the Council is no longer a social housing landlord and not required to maintain a ring-fenced HRA.
- 71 There were some residual transactions still taking place in year reflecting the relatively short period of activity in 2015/16 and also costs associated with delivering stock transfer in April which have been met from available income and reserves. All transactions are now complete and the HRA will be formally closed as part of the 2015/16 final accounts process.
- 72 After taking into account the residual transactions in closing the HRA the final position on the HRA Reserve is £23.156 million. Post the transfer of the Council's housing stock this balance reverts to the County Council and is shown in Appendix 2 as a contribution from the HRA Reserve.

## **Council Tax and Business Rates Collection Funds**

### **Council Tax**

- 73 Council Tax is charged for all residential dwellings in bandings agreed by the Valuation Office Agency, which is part of Her Majesty's Revenues and Customs (HMRC). Exemptions, reliefs and discounts are awarded dependent upon the state of the property, its use and occupiers' personal circumstances.
- 74 The collection rate at 31 March 2016 marginally exceeded the in year target of 96.2% and also showed an improvement of 0.5 percentage points over 2014/15 actual in year collection rate. This has been achieved through more automation of the 2015/16 recovery schedule used to target non-payers
- 75 The in-year collection rates at 31 March for the last three years including the current year are shown below and highlight a gradual improvement:

| <b>Billing Year</b> | <b>Position at 31 March Each Year %</b> |
|---------------------|---|
| 2015/16             | 96.3                                    |
| 2014/15             | 95.8                                    |
| 2013/14             | 95.4                                    |

- 76 The overall collection rate for 2014/15 council tax liabilities is currently 97.7% and 98.2% for 2013/14 council tax liabilities. The Council continues to recover Council Tax from earlier years and currently, the collection rate for all years excluding the current year is 99.6% which is in line with our medium term financial plan forecasts.
- 77 The income shown in the Council Tax Collection Fund is the amount collectable from Council Tax payers in the long run, rather than the actual cash collected in the year the charges are raised. Likely bad debts are accounted for by maintaining a bad debt provision. The amount estimated to be collectable is calculated each year by reference to the actual council taxbase for all domestic properties in the county (schedule of all properties, discounts and reliefs) with an allowance for non-collection, currently 1.5%.
- 78 Due to changes in the number of properties (including new build and demolitions), eligibility of discounts and reliefs during the year, the actual amount collectable increases or decreases from the estimate on a dynamic day to day basis. In addition, adjustments for previous billing years take place during each accounting year. All of these adjustments mean that the actual amounts collected will always differ from the estimate.
- 79 Such differences at the end of each accounting year, after taking into account the calculated change required in the 'bad debt' provision, determines whether a surplus or deficit has arisen, which is then shared proportionately between the Council and its major preceptors, being Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue Authority.
- 80 At 31 March 2016, the outturn for the Council Tax Collection Fund is a surplus of £7.281 million as shown in the table below. Durham County Council's share of this surplus is £6.106 million.

|  | <b>£m</b>      |
|--|----------------|
| Net Bills issued during Accounting Year 2015/16                      | 278.929        |
| LCTRS and previous years CTB adjustments                             | -51.572        |
| Calculated change in provision for bad debts required and write offs | -2.016         |
| <b>Net income receivable (a)</b>                                     | <b>225.341</b> |
| <b>Precepts and Demands</b>  |                |
| Durham County Council  | 174.134        |
| Parish and Town Councils   | 10.921         |
| Durham Police and Crime Commissioner                                 | 21.235         |
| County Durham and Darlington Fire and Rescue Authority               | 12.261         |
| <b>Total Precepts and Demands (b)</b>                                | <b>218.551</b> |
| <b>Net Surplus / (-) Deficit for year (a) – (b)</b>                  | <b>6.790</b>   |
| <b>Surplus Brought Forward from 2014/15</b>                          | <b>0.491</b>   |
| <b>Estimated Year end surplus</b>                                    | <b>7.281</b>   |

- 81 At 15 January in each year, the estimated surplus or deficit on the Collection Fund Council Tax Account is notified to the two major preceptors for inclusion in the budget setting process for the following year as an additional income or expenditure item.
- 82 At 15 January 2016 the decision was taken to declare a surplus of £7.031 million as an estimated year end position on the Council Tax Collection Fund for 2015/16. This has been taken into account in the budget setting process for 2016/17. The difference between this and the actual surplus (£7.281 million) at 31 March 2016 will be carried forward to 15 January 2017 and will be taken into account in estimating the surplus/deficit for 2016/17, which will need to be taken into account for 2017/18 budget setting.
- 83 Over the past four years, the Council Tax provision for bad debts has been increasing steadily. This managed approach has been necessary to minimise the risk of the Council Tax Collection Fund moving into deficit whilst securing the robustness of the levels of provision held. The position has now been reached where maintaining the provision at a prudent level does not prevent the declaration of a surplus.

### **Business Rates**

- 84 2013/14 was the first year of the new Business Rates Retention Scheme whereby the Council now has a vested budget interest and stake in the level of business rate yield, as income generated from Business Rates is now shared between Central Government (50%), Durham County Council (49%) and County Durham and Darlington Fire and Rescue Authority (1%). It is therefore, not only the accuracy and timeliness of bills levied and tax collected that is monitored and audited, but the level of income anticipated for the year is important and new monitoring procedures have been devised for this purpose.

- 85 Bills raised, exemptions and reliefs awarded are examined, together with local knowledge of anticipated changes in reliefs such as Mandatory Charitable Relief and Discretionary Rate Relief, on a monthly basis to enable a comparison with the January 2015 estimate of 2015/16 Business Rates income that was used for budget setting purposes. At 31 March 2016, the outturn for the Collection Fund - Business Rates is a deficit of £7.691 million, arrived at as shown in the table below, which takes into account the actual surplus brought forward from 2014/15, including the previously declared estimated surplus plus the undeclared surplus based upon the actual surplus as at 31 March 2015.

|   | £m             |
|---|----------------|
| Net rate yield for 2015/16 including previous year adjustments                    | 116.612        |
| Estimate of changes due to appeals lodged and future appeals                      | -10.564        |
| Estimated losses in Collection – Provision for Bad Debts and Write-offs           | -1.756         |
| <b>Net income receivable (a)</b>  | <b>104.292</b> |
| Agreed allocated shares   |                |
| Central Government (50%)  | 55.916         |
| Durham County Council (49%)   | 54.798         |
| County Durham and Darlington Fire and Rescue Authority (1%)                       | 1.118          |
| Payment of Previous year's declared surplus                                       | 1.020          |
| Cost of Collection Allowance and Renewable Energy (paid to Durham County Council) | 0.655          |
| <b>Total fixed payments (b)</b>   | <b>113.507</b> |
| <b>Net deficit for year (a) – (b)</b>   | <b>-9.215</b>  |
| <b>Declared Surplus brought forward from 2014/15</b>                              | <b>1.020</b>   |
| <b>Undeclared Surplus brought forward from 2014/15</b>                            | <b>0.504</b>   |
| <b>Estimated year end deficit</b>   | <b>-7.691</b>  |

- 86 The in-year deficit of £9.215 million is mainly due to increased loss of income from business rate payers' successful appeals based on evidence from those already settled. This loss is being offset by the surplus brought forward from 2014/15, leaving a deficit of £7.961 million at 31 March 2016. Any surpluses or deficits at 31 March in any year are shared proportionately between Durham County Council, Central Government and County Durham and Darlington Fire and Rescue, Durham County Council's share being 49%. Durham County Council's share of the year end deficit will therefore be £3.769 million.

- 87 The payment profile on collection performance is changing due to more businesses opting to spread their payments over 12 months rather than ten. The major Business Rates Payers have all opted to take up this opportunity to re-profile their cash flow. However, robust collection procedures have ensured that the challenging collection target of 96.7% has been exceeded.
- 88 The in-year collection rates to quarter 3 for the last three years, including the current year, are shown below highlighting a gradual improvement:

| Billing Year | Position at 31 March Each Year % |
|--------------|----------------------------------|
| 2015/16      | 97.4                             |
| 2014/15      | 97.2                             |
| 2013/14      | 96.4                             |

- 89 The overall collection rate for 2014/15 business rate liabilities is currently 99.0% and for 2013/14 business rate liabilities 99.1%. The Council continues to recover Business Rates from earlier years and currently, the collection rate for all years excluding the current year is 99.2% which is in line with our medium term financial plan forecasts.

### Section 31 Grant - Small Business Rate Relief

- 90 Small Business Ratepayers with properties with rateable values under £12,000 benefit from relief on their rates payable. The Government has awarded local authorities a special 'Section 31' grant to cover their share of the shortfall in business rates that these small business ratepayers would have paid had the relief scheme not been in place.
- 91 Small Business Ratepayers with properties with rateable values up to £6,000 are currently being granted full relief instead of 50% relief under the previous scheme, and properties with rateable values between £6,000 and £12,000 have a tapered relief applied to them ranging from 100% down to 0%, but in all cases double the standard relief.
- 92 The Section 31 grant has been calculated as 50% of the extended small business rate relief awarded.
- 93 The Government has only agreed to pay Section 31 grant for the additional Small Business Rate Relief in respect of business rates bills and adjustments thereof relating to the period commencing 1 April 2013. Any adjustments that relate to bills for years prior to this will be dealt with as part of the normal Rate Retention shares. At 31 March 2016, the gross Small Business Relief awarded against 2015/16 Business Rates bills and adjustments to 2014/15 and 2013/14 bills is £10.084 million, and on this the Council will receive £2.475 million in Section 31 Grant, including the capping adjustment.

### Other Section 31 Grants

- 94 In the Autumn Statements of 2013, 2014 and 2015, additional Business Rate Reliefs were announced for 2014/15, 2015/16 and 2016/17 for which Section 31 Grants would be payable. These included one for properties empty from new, reoccupation of long-term empty properties and an additional relief for small shops.



- 95 When assessing estimated outturn income from Business Rates, due regard must also be given on the effect that changes in estimated reliefs will have on the Section 31 grants. At 31 March 2016, the surplus in Durham County Council's Section 31 grants (including Small Business Rate Relief) was £0.175 million, in addition to the estimated deficit discussed above.
- 96 Whilst the surplus in S31 grants is accounted for in 2015/16, the deficit on Business Rates retention is accounted for in 2016/17.

### **Recommendations and Reasons**

- 97 It is recommended that Cabinet note:
- (i) the reduction in the Cash Limit Reserves of £0.063 million during 2015/16 with closing Cash Limit Reserves of £22.300 million. These sums will continue be held as Earmarked Reserves and be available for Service Groupings to manage their budgets effectively.
  - (ii) the closing General Reserve balance of £29.101 million.
  - (iii) the closing balance on General Fund Earmarked Reserves (excluding Cash Limit Reserves) is £183.075 million
  - (iv) the closing balance on Schools Reserves is £36.269 million.
  - (v) the closing Housing Revenue Account balance of £23.156 million transferred to Council Reserves.
  - (vi) the position for the Collection Funds in respect of Council Tax and Business Rates.
- 98 It is recommended that Cabinet approve:
- (vii) the capital budget carried forward of £17.119 million for the General Fund is moved into 2016/17, offset by reductions in the 2016/17 programme to fund accelerated spending in 2015/16 and that Service Groupings regularly review capital profiles throughout 2016/17 reporting revisions to MOWG and Cabinet as necessary.

### **Background Papers**

- (a) Cabinet – 16 September 2015 – Forecast of Revenue and Capital Outturn 2015/16 for General Fund and Housing Revenue Account – Period to 30 June 2015.
- (b) Cabinet – 18 November 2015 - Forecast of Revenue and Capital Outturn 2015/16 for General Fund and Housing Revenue Account – Period to 30 September 2015.
- (c) Cabinet – 16 March 2016 - Forecast of Revenue and Capital Outturn 2015/16 for General Fund and Housing Revenue Account – Period to 31 December 2015.

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|                 |                     |                          |
|-----------------|---------------------|--------------------------|
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|                 | <b>Paul Darby</b>   | <b>Tel: 03000 261943</b> |

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## **Appendix 1: Implications**

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### **Finance**

The report details the financial outturn for the Council for 2015/16 for Revenue and Capital. The report covers General Fund and Housing Revenue Account for both Revenue and Capital and the outturn position for General and Earmarked Reserves at 31 March 2016, plus the Collection Fund outturn, covering both Council Tax and Business Rates.

### **Staffing**

None.

### **Risk**

The figures contained within this report have been extracted from the General Ledger, and have been scrutinised and supplemented with information supplied by Budget Managers and Service Management Teams. The outturn has been produced taking into consideration all spend in year and year end accounting requirements and standard / recommended accounting practices. This should mitigate any risks with regards to challenge over the accuracy and validity of the financial outturn position of the Council as reported.

### **Equality and Diversity / Public Sector Equality Duty**

None.

### **Accommodation**

None.

### **Crime and Disorder**

None.

### **Human Rights**

None.

### **Consultation**

Budget Managers and Service Management Teams have been consulted on and contributed to the contents of the report and the accounting entries contained within.

### **Procurement**

None.

### **Disability Issues**

None.

### **Legal Implications**

The outturn contained within this report has been prepared in accordance with standard accounting policies and procedures.

## Appendix 2: General Fund Revenue Summary 2015/16

|  | Cash Limit Adjustments  |                |                                 |                |                             |                    |   |                     |                |
|--|-------------------------|----------------|---------------------------------|----------------|-----------------------------|--------------------|---|---------------------|----------------|
|  | Original Budget 2015/16 | Revised Budget | Service Groupings Final Outturn | Variance       | Sums Outside the cash Limit | Cash Limit Reserve | Contribution to / Use of Earmarked Reserves | Cash Limit Position | Variance       |
|  | £'000                   | £'000          | £'000                           | £'000          | £'000                       | £'000              | £'000                                       | £'000               | £'000          |
| Assistant Chief Executive                              | 10,163                  | 9,730          | 10,200                          | 470            | -1,226                      | 0                  | 498   | -258                | 258            |
| Children and Adults Services                           | 251,450                 | 258,307        | 238,084                         | -20,223        | -609                        | -31                | 10,172                                      | -10,691             | 10,691         |
| Neighbourhood Services                                 | 104,236                 | 107,819        | 103,995                         | -3,824         | 310                         | -255               | 2,909                                       | -860                | 860            |
| Regeneration and Economic Development                  | 41,535                  | 27,388         | 25,012                          | -2,376         | -170                        | 46                 | 684   | -1,816              | 1,816          |
| Resources  | 15,855                  | 17,847         | 15,423                          | -2,424         | 1,874                       | 0                  | -869  | -1,419              | 1,419          |
| <b>Cash Limit Position</b>                             | <b>423,239</b>          | <b>421,091</b> | <b>392,714</b>                  | <b>-28,377</b> | <b>179</b>                  | <b>-240</b>        | <b>13,394</b>                               | <b>-15,044</b>      | <b>15,044</b>  |
| Contingencies  | 5,690                   | 1,434          | 0                               | -1,434         |                             |                    | 0   | -1,434              | 1,434          |
| Centrally Held Budgets                                 | 0                       | 0              | -1,548                          | -1,548         | 1,572                       | 0                  | 0   | 24                  | -24            |
| Corporate Costs  | 4,980                   | 4,031          | 4,181                           | 150            | 187                         | 0                  | -595  | -258                | 258            |
| <b>NET COST OF SERVICES</b>                            | <b>433,909</b>          | <b>426,556</b> | <b>395,347</b>                  | <b>-31,209</b> | <b>1,938</b>                | <b>-240</b>        | <b>12,799</b>                               | <b>-16,712</b>      | <b>16,712</b>  |
| Capital charges  | -48,977                 | -48,977        | -92,907                         | -43,930        | 1,624                       |                    |   | -42,306             | 42,306         |
| Gain/Loss on Disposal                                  | 0                       | 0              | 42,306                          | 42,306         |                             |                    |   | 42,306              | -42,306        |
| Interest and Investment income                         | -1,641                  | -3,168         | -4,704                          | -1,536         |                             |                    |   | -1,536              | 1,536          |
| Interest payable and similar charges                   | 38,530                  | 45,877         | 47,521                          | 1,644          |                             |                    | -1,547                                      | 97                  | -97            |
| HR Accrual   | 0                       | 0              | 1,802                           | 1,802          | -1,802                      |                    |   | 0                   | 0              |
| Levies   | 0                       | 16,555         | 16,555                          | 0              |                             |                    |   | 0                   | 0              |
| <b>Net Expenditure</b>                                 | <b>421,821</b>          | <b>436,843</b> | <b>405,920</b>                  | <b>-30,923</b> | <b>1,760</b>                | <b>-240</b>        | <b>11,252</b>                               | <b>-18,151</b>      | <b>18,151</b>  |
| <b>Funded By:</b>                                      |                         |                |                                 |                |                             |                    |   |                     |                |
| Council tax  | -174,134                | -174,134       | -174,137                        | -3             |                             |                    |   | -3                  | 3              |
| Use of (-) / contribution to earmarked reserves        | -11,511                 | 10,897         | 27,149                          | 16,252         |                             |                    | 5,000                                       | 21,252              | -21,252        |
| Estimated net surplus on Collection Fund               | -500                    | -500           | -500                            | 0              |                             |                    |   | 0                   | 0              |
| Start up Funding Assessment                            | -215,540                | -215,540       | -215,541                        | -1             |                             |                    |   | -1                  | 1              |
| New Homes Bonus  | -8,322                  | -8,322         | -8,323                          | -1             |                             |                    |   | -1                  | 1              |
| New Homes Bonus - Re-imburement                        | -377                    | -377           | -374                            | 3              |                             |                    |   | 3                   | -3             |
| Section 31 Grant - Small business rate relief          | -2,398                  | -2,398         | -2,475                          | -77            |                             |                    |   | -77                 | 77             |
| Section 31 Grant - Settlement Funding Assessment Adj.  | -919                    | -919           | -919                            | 0              |                             |                    |   | 0                   | 0              |
| Section 31 Grant - Retail Adjustment                   | -1,681                  | -1,681         | -1,779                          | -98            |                             |                    |   | -98                 | 98             |
| Education Services Grant                               | -6,002                  | -6,002         | -6,006                          | -4             |                             |                    |   | -4                  | 4              |
| Forecast contribution to / from (-) Cash Limit Reserve | -437                    | -14,867        | -63                             | 14,804         |                             |                    |   | 14,804              | -14,804        |
| Forecast contribution to General Reserves              | 0                       | 0              | 204                             | 204            |                             |                    |   | 204                 | -204           |
| Forecast contribution from HRA Reserve                 | 0                       | -23,000        | -23,156                         | -156           |                             |                    |   | -156                | 156            |
| <b>TOTAL</b>   | <b>0</b>                | <b>0</b>       | <b>0</b>                        | <b>0</b>       | <b>1,760</b>                | <b>-240</b>        | <b>16,252</b>                               | <b>17,772</b>       | <b>-17,772</b> |



### Appendix 3: General Fund Revenue Summary by Expenditure / Income for 2015/16

|                                | Original Budget 2015/16 | Revised Budget   | Proposed Budget Revisions | Agreed Budget    | Service Groupings Final Outturn | Corporate Costs | Sums Outside the Cash Limit | Cash Limit Reserve | Contribution to / Use of Earmarked Reserves | Revised Service Outturn | Forecasted Variance (including Corporate Costs) | Forecasted Variance - Corporate Costs |
|--------------------------------|-------------------------|------------------|---------------------------|------------------|---------------------------------|-----------------|-----------------------------|--------------------|---|-------------------------|---|---------------------------------------|
|                                | £'000                   | £'000            | £'000                     | £'000            | £'000                           | £'000           | £'000                       | £'000              | £'000                                       | £'000                   | £'000   | £'000                                 |
| <b>Employees</b>               | 470,911                 | 485,339          | 0                         | 485,339          | 513,336                         | 834             | 1,687                       | -31                | -1,896                                      | 513,930                 | 28,591  | -20                                   |
| <b>Premises</b>                | 50,757                  | 50,963           | 0                         | 50,963           | 55,986                          | 0               | -4,182                      | 0                  | 96  | 51,900                  | 937   | 0                                     |
| <b>Transport</b>               | 47,915                  | 41,129           | 0                         | 41,130           | 40,534                          | 0               | -2                          | 0                  | 19  | 40,551                  | -579  | 0                                     |
| <b>Supplies &amp; Services</b> | 112,068                 | 125,960          | 0                         | 125,960          | 134,267                         | 1,178           | 884                         | 46                 | 3,584                                       | 139,959                 | 13,999  | -219                                  |
| <b>Agency &amp; Contracted</b> | 307,725                 | 309,417          | 0                         | 309,417          | 307,193                         | 2,367           | 0                           | -188               | 1,772                                       | 311,144                 | 1,727   | -2                                    |
| <b>Transfer Payments</b>       | 204,317                 | 206,086          | 0                         | 206,086          | 205,562                         | 0               | 0                           | 0                  | 12,014                                      | 217,576                 | 11,490  | 0                                     |
| <b>Central Costs</b>           | 96,263                  | 95,852           | 0                         | 95,852           | 76,731                          | 197             | -5,264                      | 0                  | 7,290                                       | 78,954                  | -16,898   | -1                                    |
| <b>DRF</b>                     | 0                       | 125              | 0                         | 125              | 3,286                           | 0               | 0                           | -67                | 21  | 3,240                   | 3,115   | 0                                     |
| <b>Other</b>                   | 18,603                  | 20,638           | 0                         | 20,638           | 21,814                          | 0               | -2                          | 0                  | 97  | 21,909                  | 1,271   | 0                                     |
| <b>Capital Charges</b>         | 48,977                  | 48,977           | 0                         | 48,977           | 50,601                          | 0               | -1,624                      | 0                  | 0   | 48,977                  | 0   | 0                                     |
| <b>GROSS EXPENDITURE</b>       | <b>1,357,536</b>        | <b>1,384,486</b> | <b>0</b>                  | <b>1,384,487</b> | <b>1,409,310</b>                | <b>4,576</b>    | <b>-8,503</b>               | <b>-240</b>        | <b>22,997</b>                               | <b>1,428,140</b>        | <b>43,653</b>                                   | <b>-242</b>                           |
| <b>Income</b>                  |                         |                  |                           |                  |                                 |                 |                             |                    |   |                         |   |                                       |
| - Specific Grants              | 564,352                 | 578,541          | 0                         | 578,541          | 569,884                         | 106             | 0                           | 0                  | 11,794                                      | 581,784                 | -3,243  | -1                                    |
| - Other Grants & conts         | 53,488                  | 69,982           | 0                         | 69,982           | 73,975                          | 0               | 905                         | 0                  | -102  | 74,778                  | -4,796  | 0                                     |
| - Sales                        | 5,966                   | 6,599            | 0                         | 6,599            | 8,610                           | 274             | -174                        | 0                  | -359  | 8,351                   | -1,752  | 0                                     |
| - Fees & charges               | 104,473                 | 102,349          | 0                         | 102,349          | 109,070                         | 15              | -3                          | 0                  | -838  | 108,244                 | -5,895  | -15                                   |
| - Rents                        | 6,494                   | 7,450            | 0                         | 7,450            | 7,036                           | 0               | 0                           | 0                  | -22   | 7,014                   | 436   | 0                                     |
| - Recharges                    | 186,789                 | 186,695          | 0                         | 186,736          | 235,061                         | 0               | -11,169                     | 0                  | -193  | 223,699                 | -36,963   | 0                                     |
| - Other                        | 7,755                   | 7,748            | 0                         | 7,708            | 14,508                          | 0               | 0                           | 0                  | -82   | 14,426                  | -6,718  | 0                                     |
| <b>Total Income</b>            | <b>929,317</b>          | <b>959,364</b>   | <b>0</b>                  | <b>959,365</b>   | <b>1,018,144</b>                | <b>395</b>      | <b>-10,441</b>              | <b>0</b>           | <b>10,198</b>                               | <b>1,018,296</b>        | <b>-58,931</b>                                  | <b>-16</b>                            |
| <b>NET EXPENDITURE</b>         | <b>428,219</b>          | <b>425,122</b>   | <b>0</b>                  | <b>425,122</b>   | <b>391,166</b>                  | <b>4,181</b>    | <b>1,938</b>                | <b>-240</b>        | <b>12,799</b>                               | <b>409,844</b>          | <b>-15,278</b>                                  | <b>-258</b>                           |

## Appendix 4: General Fund Earmarked Reserves as at 31 March 2016

|       | EARMARKED RESERVES AND CASH LIMIT RESERVES   | SERVICE GROUPING | 2014/15 CLOSING BALANCE | USE OF RESERVES | CONTRIBUTION TO RESERVES | TRANSFERS BETWEEN RESERVES | TOTAL MOVEMENT ON RESERVES | 2015/16 CLOSING BALANCE AS AT 31 MARCH 2016 |
|-------|--|------------------|-------------------------|-----------------|--------------------------|----------------------------|----------------------------|---|
|       |  |                  | £'000                   | £'000           | £'000                    | £'000                      | £'000                      | £'000                                       |
| 1     | ACE AAP/Members Reserve                      | ACE              | -3,699                  | 498             | -288                     | -118                       | 92                         | -3,607                                      |
| 2     | ACE Grant Reserve                            | ACE              | -194                    | 0               | -1,218                   | 0                          | -1,218                     | -1,412                                      |
| 3     | ACE Operational Reserve                      | ACE              | -124                    | 8               | -156                     | -475                       | -623                       | -747  |
| 4     | Social Care Reserve                          | CAS              | -13,335                 | 1,882           | -1,910                   | 0                          | -28                        | -13,363                                     |
| 5     | Aycliffe Young People's Centre Reserve       | CAS              | -1,202                  | 998             | 0                        | 0                          | 998                        | -204  |
| 6     | Continuing Professional Development Reserve  | CAS              | -1,035                  | 0               | -167                     | 0                          | -167                       | -1,202                                      |
| 7     | Education Reserve                            | CAS              | -2,440                  | 352             | -157                     | -1,409                     | -1,214                     | -3,654                                      |
| 8     | Tackling Troubled Families                   | CAS              | -2,027                  | 330             | 0                        | 0                          | 330                        | -1,697                                      |
| 9     | Transformation Reserve                       | CAS              | -1,483                  | 0               | -1,441                   | 0                          | -1,441                     | -2,924                                      |
| 10    | Innovations and YEI Redundancy Reserve       | CAS              | 0                       | 0               | 0                        | -1,000                     | -1,000                     | -1,000                                      |
| 11    | YOS Development Reserve                      | CAS              | 0                       | 0               | -10                      | 0                          | -10                        | -10   |
| 12    | Special Projects Reserve                     | CAS              | -37                     | 37              | 0                        | 0                          | 37                         | 0   |
| 14    | Public Health Reserve                        | CAS              | -4,983                  | 3,734           | -3,705                   | 0                          | 29                         | -4,954                                      |
| 15    | Neighbourhoods AAP Reserve                   | NS               | -40                     | 0               | -8                       | 0                          | -8                         | -48   |
| 16    | Customer Services Reserve                    | NS               | -373                    | 140             | 0                        | 0                          | 140                        | -233  |
| 17    | Direct Services Reserve                      | NS               | -3,043                  | 725             | -673                     | 0                          | 52                         | -2,991                                      |
| 18    | Env. Health and Consumer Protection Reserve  | NS               | -1,000                  | 86              | -33                      | 0                          | 53                         | -947  |
| 19    | Culture and Sport Reserve                    | NS               | -3,193                  | 753             | -673                     | 0                          | 80                         | -3,113                                      |
| 20    | Strategic Waste Reserve                      | NS               | -1,796                  | 1,660           | 0                        | 0                          | 1,660                      | -136  |
| 21    | Technical Services Reserve                   | NS               | -2,922                  | 443             | -1,873                   | 0                          | -1,430                     | -4,352                                      |
| 22    | Transport Asset Management Programme Reserve | NS               | -318                    | 158             | 0                        | 0                          | 158                        | -160  |
| 23    | Business Growth Fund Reserve                 | RED              | -913                    | 97              | 0                        | 0                          | 97                         | -816  |
| 24    | Economic Development Reserve                 | RED              | -1,486                  | 342             | -166                     | -14                        | 162                        | -1,324                                      |
| 25    | Planning Reserve                             | RED              | -1,423                  | 174             | -80                      | 0                          | 94                         | -1,329                                      |
| 26    | North Pennines AONB Partnership Reserve      | RED              | -329                    | 124             | 0                        | 0                          | 124                        | -205  |
| 27    | Employability and Training Reserve           | RED              | -458                    | 229             | -1,478                   | 0                          | -1,249                     | -1,707                                      |
| 28    | RED Match Fund Programme Reserve             | RED              | -1,344                  | 50              | -274                     | -444                       | -668                       | -2,012                                      |
| 29    | Housing Regeneration Reserve                 | RED              | -410                    | 112             | -22                      | 0                          | 90                         | -320  |
| 30    | Housing Solutions Reserve                    | RED              | -867                    | 19              | -295                     | 0                          | -276                       | -1,143                                      |
| 31    | Restructure Reserve                          | RED              | -663                    | 62              | 0                        | 413                        | 475                        | -188  |
| 32    | Transport Reserve                            | RED              | -287                    | 36              | 0                        | 0                          | 36                         | -251  |
| 33    | Funding and Programmes Management Reserve    | RED              | -140                    | 0               | -14                      | 0                          | -14                        | -154  |
| 34    | Resources Corporate Reserve                  | Resources        | -989                    | 59              | 0                        | 0                          | 59                         | -930  |
| 35    | Resources DWP Grant Reserve                  | Resources        | -1,932                  | 161             | -308                     | 45                         | -102                       | -2,034                                      |
| 36    | Resources System Development Reserve         | Resources        | -840                    | 132             | -166                     | 0                          | -34                        | -874  |
| 37    | Resources Housing Benefit Subsidy Reserve    | Resources        | -745                    | 245             | 0                        | 0                          | 245                        | -500  |
| 38    | Resources Revenue and Benefits Reserve       | Resources        | 0                       | 0               | -200                     | 0                          | -200                       | -200  |
| 39    | Resources Single Fraud Incentive Scheme      | Resources        | 0                       | 0               | -257                     | 0                          | -257                       | -257  |
| 40    | Local Council Tax Support Scheme Reserve     | Resources        | -1,031                  | 0               | 0                        | 1,031                      | 1,031                      | 0   |
| 41    | Resources Land Search Fees Reserve           | Resources        | -1,000                  | 47              | 0                        | 509                        | 556                        | -444  |
| 42    | Resources Legal Expenses Reserve             | Resources        | -200                    | 0               | 0                        | 0                          | 0                          | -200  |
| 43    | Resources Legal Services Reserve             | Resources        | 0                       | 0               | -154                     | 0                          | -154                       | -154  |
| 44    | Resources Elections Reserve                  | Resources        | -1,036                  | 26              | 0                        | 0                          | 26                         | -1,010                                      |
| 45    | Resources ICT Reserves                       | Resources        | -1,130                  | 372             | -468                     | -500                       | -596                       | -1,726                                      |
| 46    | Human Resources Reserve                      | Resources        | -65                     | 0               | 0                        | 0                          | 0                          | -65   |
| 47    | Corporate Reserve - Demographic Pressures    | Corporate Fin    | -23,600                 | 4,150           | 0                        | 19,450                     | 23,600                     | 0   |
| 48    | Equal Pay Reserve                            | Corporate Fin    | -14,116                 | 4,798           | -210                     | 0                          | 4,588                      | -9,528                                      |
| 49    | Insurance Reserve                            | Corporate Fin    | -15,603                 | 0               | -1,626                   | 7,000                      | 5,374                      | -10,229                                     |
| 50    | Performance Reward Grant Reserve             | Corporate Fin    | -1,043                  | 358             | 0                        | 0                          | 358                        | -685  |
| 51    | MTFP Redundancy and Early Retirement Reserve | Corporate Fin    | -10,881                 | 7,023           | 0                        | -10,000                    | -2,977                     | -13,858                                     |
| 52    | Office Accommodation Project Support Reserve | Corporate Fin    | -1,007                  | 310             | 0                        | 0                          | 310                        | -697  |
| 53    | Planned Delivery Programme (PDP) Reserve     | Corporate Fin    | -20,000                 | 0               | 0                        | 20,000                     | 20,000                     | 0   |
| 54    | Budget Support Reserve                       | Corporate Fin    | 0                       | 0               | 0                        | -30,000                    | -30,000                    | -30,000                                     |
| 55    | Capital Expenditure Reserve                  | Corporate Fin    | -2,802                  | 3,352           | -1,000                   | 450                        | 2,802                      | 0   |
| 56    | Office Accommodation Capital Reserve         | Corporate Fin    | -8,000                  | 0               | -22,000                  | -12,481                    | -34,481                    | -42,481                                     |
| 57    | Housing Stock Transfer Reserve               | Corporate Fin    | 0                       | 0               | -1,000                   | 0                          | -1,000                     | -1,000                                      |
| 58    | Pension Deficit Reserve                      | Corporate Fin    | 0                       | 0               | -5,000                   | -5,000                     | -10,000                    | -10,000                                     |
|       | <b>Total Earmarked Reserves</b>              |                  | <b>-157,584</b>         | <b>34,082</b>   | <b>-47,030</b>           | <b>-12,543</b>             | <b>-25,491</b>             | <b>-183,075</b>                             |
|       | <b>Cash Limit Reserves</b>                   |                  |                         |                 |                          |                            |                            |   |
| 59    | Assistant Chief Executive                    |                  | -773                    | 0               | -258                     | 755                        | 497                        | -276  |
| 60    | Children and Adults Services                 |                  | -9,441                  | 801             | -10,691                  | 5,829                      | -4,061                     | -13,502                                     |
| 61    | Neighbourhood Services                       |                  | -5,076                  | 1,318           | -860                     | 2,039                      | 2,497                      | -2,579                                      |
| 62    | Regeneration and Economic Development        |                  | -3,216                  | 277             | -1,816                   | 964                        | -575                       | -3,791                                      |
| 63    | Resources                                    |                  | -3,857                  | 168             | -1,419                   | 2,956                      | 1,705                      | -2,152                                      |
|       | <b>Total Cash Limit Reserves</b>             |                  | <b>-22,363</b>          | <b>2,564</b>    | <b>-15,044</b>           | <b>12,543</b>              | <b>63</b>                  | <b>-22,300</b>                              |
|       | <b>Total Council Reserves</b>                |                  | <b>-179,947</b>         | <b>36,646</b>   | <b>-62,074</b>           | <b>0</b>                   | <b>-25,428</b>             | <b>-205,375</b>                             |
|       | <b>Schools' Balances</b>                     |                  |                         |                 |                          |                            |                            |   |
| Sch 1 | Schools' Revenue Balance                     | CAS              | -24,246                 | 163             | 0                        | 0                          | 163                        | -24,083                                     |
| Sch 2 | DSG Reserve                                  | CAS              | -10,364                 | 0               | -1,821                   | 0                          | -1,821                     | -12,185                                     |
|       | <b>Total Schools and DSG Reserve</b>         |                  | <b>-34,610</b>          | <b>163</b>      | <b>-1,821</b>            | <b>0</b>                   | <b>-1,658</b>              | <b>-36,268</b>                              |

**Audit Committee**

**29 July 2016**

**Treasury Management Outturn 2015/16**



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**Report of Paul Darby, Interim Corporate Director Resources**

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**Purpose of the Report**

- 1 To provide the Audit Committee with details of the Annual Treasury Management Review and final outturn on treasury management activities for 2015/16.

**Background**

- 2 The attached report presented to Cabinet on 13 July 2016 provides a detailed review of the final outturn position for Treasury Management.

**Recommendation and reasons**

- 3 Members are asked to note the 2015/16 final outturn position on Treasury Management.

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**Contact: Beverley White Tel: 03000 261900**

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## **Appendix 1: Implications**

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### **Finance –**

There are no direct financial implications arising for the Council as a result of this report.

### **Staffing -**

None

### **Risk -**

None

### **Equality and Diversity -**

None

### **Accommodation -**

None

### **Crime and Disorder -**

None

### **Human Rights -**

None

### **Consultation -**

None

### **Procurement -**

None

### **Disability Discrimination Act -**

None

### **Legal Implications -**

None



## Cabinet

13 July 2016

Treasury Management Outturn 2015/16



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### Report of Corporate Management Team

Paul Darby, Interim Corporate Director Resources

Councillor Alan Napier, Cabinet Portfolio Holder for Finance

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#### Purpose of the Report

- 1 To provide information on the Treasury Management outturn position for the year ended 31 March 2016.

#### Background

- 2 Treasury Management is the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks. It is concerned with how the Council manages its cash resources and its scope covers borrowing, investment and hedging instruments and techniques.
- 3 The regulatory framework governing Treasury Management covers the Council's cash management, loans and investments activity and requires that the Council receive, comment upon and agree regular Treasury Management review reports.
- 4 Risk is inherent in all treasury management activities and it is necessary to balance risk against return on investment.
- 5 As well as meeting the regulatory framework, this report also incorporates the needs of the 'Prudential Code', which can be regarded as being best operational practice, to ensure adequate monitoring of the Council's capital expenditure plans and prudential indicators (PIs). The Treasury Management Strategy and PIs for 2015/16 were agreed by the Council as part of the Medium Term Financial Plan 2015/16 – 2017/18 (MTFP5) on 25 February 2015 and have been updated since as part of the Medium Term Financial Plan 2016/17 to 2019/20 report (MTFP6) that was agreed by the Council on 24 February 2016.
- 6 The report also supports the objective in the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the Communities and Local Government Investment Guidance. These state that Members should receive reports and scrutinise the Treasury Management service as part of good governance and best practice.

- 7 During 2015/16 the minimum reporting requirements were that the full Council should receive the following reports:
- an annual Treasury Management Strategy in advance of the year (reported to the County Council on 25 February 2015);
  - a mid-year Treasury Management update report (reported to the County Council on 9 December 2015);
  - an annual review following the end of the year describing the activity compared to the strategy (this report).

### **External Influences 2015/16**

- 8 The following paragraphs contain a commentary from the Council's Treasury Management advisers, Capita Asset Services, who have provided their views on how changes to market expectations influenced the economy during 2015/16.
- 9 Market expectations for the first increase in bank rate since March 2009 moved considerably during 2015/16, starting in quarter 3 of 2015 but soon moving back to quarter 1 of 2016. By the end of the year however, market expectations had moved back radically to quarter 2 of 2018 due to many fears, including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.
- 10 These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank rate, therefore remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 of 2015 to 2.1% in quarter 4.
- 11 The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.
- 12 The European Central Bank (ECB) commenced a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of quantitative easing (QE) in December 2015.

- 13 In America the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since then there has been a return to caution as to the speed of further increases due to the concerns around the risks to world growth.
- 14 The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the European Union (EU). The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

### Treasury Position for the Council

- 15 The Treasury position for the Council during 2015/16 is shown in the table below:

|   | 31-Mar-15 | Rate/<br>Return | Average<br>Life | 31-Mar-16 | Rate/<br>Return | Average<br>Life |
|---|-----------|-----------------|-----------------|-----------|-----------------|-----------------|
|   | £million  | %               | years           | £million  | %               | years           |
| <b>Total Debt</b>                                       | 457       | 4.45            |                 | 246       | 4.15            |                 |
| <b>Capital Financing Requirement (CFR)</b>              | 636       |                 |                 | 410       |                 |                 |
| <b>(-) Under Borrowing</b>                              | -179      |                 |                 | -164      |                 |                 |
| <b>Total Investments</b>                                | 238       | 0.71            | 0.35            | 195       | 0.87            | 0.41            |
| <b>Net Debt<br/>(total debt less total investments)</b> | 219       |                 |                 | 51        |                 |                 |

- 16 Total debt has fallen by £211million in 2015/16 as a result of debt contributable to the HRA being repaid as part of the housing stock transfer.
- 17 Due to the overall financial position of the Council no new borrowing was raised during 2015/16.

### Capital Expenditure and Financing

- 18 The Council undertakes capital expenditure on long-term assets. These activities may either be:
- financed immediately through the application of capital or revenue resources (capital receipts, capital grants or revenue contributions), which has no resultant impact on the Council's borrowing need, or
  - if insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

- 19 Actual capital expenditure forms one of the required prudential indicators. The following table shows actual capital expenditure in 2015/16 and how this was financed.

|                                       | <b>2014/15<br/>Actual</b> | <b>2015/16<br/>Budget</b> | <b>2015/16<br/>Actual</b> |
|---------------------------------------|---------------------------|---------------------------|---------------------------|
|                                       | <b>£million</b>           | <b>£million</b>           | <b>£million</b>           |
| Non-HRA Capital Expenditure           | 117.214                   | 131.736                   | 115.421                   |
| Non-HRA PFI and Finance Lease         | 2.172                     | 7.193                     | 5.298                     |
| HRA Capital Expenditure               | 42.826                    | -                         | -                         |
| <b>Total capital expenditure</b>      | <b>162.212</b>            | <b>138.929</b>            | <b>120.719</b>            |
| Resourced by:                         |                           |                           |                           |
| Capital receipts                      | 12.976                    | 16.631                    | 10.183                    |
| Capital grants                        | 75.390                    | 52.318                    | 52.172                    |
| Capital reserves and revenue          | 29.049                    | 13.167                    | 23.770                    |
| <b>Unfinanced capital expenditure</b> | <b>44.797</b>             | <b>56.813</b>             | <b>34.594</b>             |

### Overall Borrowing Requirement

- 20 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).
- 21 The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2015/16 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 22 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the Corporate Director Resources' treasury management team organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements.
- 23 This may be sourced through borrowing from external bodies (such as the Government, PWLB or money markets), or internal resources (e.g. use of reserves, working capital).
- 24 The Council's non HRA capital finance requirement (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need.
- 25 The Council's 2015/16 MRP Policy, as required by the Department of Communities and Local Government (CLG) guidance was approved as part of the Treasury Management Strategy Report for 2015/16 on 25 February 2015 and updated on 24 February 2016.

- 26 The Council's CFR for 2015/16, as agreed in February 2016, is shown in the following table, and represents one of the key prudential indicators.

| <b>CFR</b>                                      | <b>31-Mar-15<br/>Actual</b> | <b>31-Mar-16<br/>Estimate</b> | <b>31-Mar-16<br/>Actual</b> |
|---|-----------------------------|-------------------------------|-----------------------------|
|   | <b>£million</b>             | <b>£million</b>               | <b>£million</b>             |
| Opening balance                                 | 607.260                     | 636.459                       | 636.459                     |
| Add unfinanced capital expenditure (as above)   | 44.797                      | 56.813                        | 34.594                      |
| Less MRP/ VRP                                   | -15.730                     | -17.178                       | -16.569                     |
| Adjusted for:                                   |                             |                               |                             |
| HRA non-dwelling impairment/ revaluation losses | 0.132                       | -                             | -                           |
| Housing Stock Transfer                          | -                           | -244.000                      | -244.000                    |
| <b>Closing balance</b>                          | <b>636.459</b>              | <b>432.094</b>                | <b>410.484</b>              |

- 27 The Housing Stock Transfer did not take place until 13 April 2015 although it had been anticipated to take place in March 2015. Consequently it was not reflected in the calculation of the actual 2014/15 CFR.
- 28 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit. In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure.
- 29 The authorised limit is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level.
- 30 The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.
- 31 The table below demonstrates that during 2015/16 the Council has maintained gross borrowing within its authorised limit.

|   | <b>2015/16<br/>(original)<br/>£million</b> | <b>2015/16<br/>(revised)<br/>£million</b> |
|---|--|---|
| Authorised limit                        | 561.000                                    | 561.000                                   |
| Operational boundary                    | 508.000                                    | 508.000                                   |
| Maximum gross borrowing position        |  | 457.375                                   |
| Average actual gross borrowing position |  | 255.300                                   |

## Investment Strategy

- 32 The prime objective of the Council's Investment Strategy is to ensure prudent investment of surplus funds. The Council's investment priorities are therefore the security of capital, liquidity of investments and, within those objectives, to secure optimum performance in terms of interest earned. The Council has regard to the CLG Guidance and the CIPFA Treasury Management Code when making its investment decisions.
- 33 Therefore the primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

## Investment Counterparty Selection Criteria

- 34 The criteria used for providing a pool of high quality investment counterparties with which the Council can invest its surplus funds are:

- Banks 1 – the Council will only use UK banks that have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):

|            | <b>Fitch</b> | <b>Moody's</b> | <b>Standard &amp; Poor's</b> |
|------------|--------------|----------------|------------------------------|
| Short Term | F1           | P1             | A-1                          |
| Long Term  | A-           | A3             | A-                           |

- Non UK Banks 1 – the Council will only use non UK banks which have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings:

|                  | <b>Fitch</b> | <b>Moody's</b> | <b>Standard &amp; Poor's</b> |
|------------------|--------------|----------------|------------------------------|
| Sovereign Rating | AA-          | AA-            | AA-                          |
| Short Term       | F1           | P1             | A-1                          |
| Long Term        | A-           | A3             | A-                           |

(n.b. viability, financial strength and support ratings have been removed and will not be considered in choosing counterparties.)

- Banks 2 – Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

- Building societies - the Council will use societies which meet the ratings for banks outlined above.
- Money market funds.
- Enhanced money market funds.
- UK Government (including gilts and the Debt Management Account Deposit Facility).
- Other local authorities and parish councils.

### **Time and Monetary Limits Applying to Investments**

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

|                                      | <b>Long Term Rating</b> | <b>Monetary Limit</b>                       | <b>Time Limit</b> |
|--------------------------------------|-------------------------|---|-------------------|
| Banks 1 higher quality               | AA-                     | £50million                                  | 2 years           |
| Banks 1 medium quality               | A                       | £35million                                  | 1 year            |
| Banks 1 lower quality                | A-                      | £25million                                  | 6 months          |
| Banks 2 category – part-nationalised | n/a                     | £60million                                  | 2 years           |
| Banks 3 category – Council's banker  | A-                      | £25million                                  | 3 months          |
| DMADF/ Treasury Bills                | AAA                     | Unlimited                                   | 6 months          |
| Local Authorities                    | n/a                     | £10million each                             | 5 years           |
| Money Market Funds                   | AAA                     | £20million each<br>(overall<br>£100million) | liquid            |

### **Investment Outturn for 2015/16**

36 The County Council's surplus cash holding as at 31 March 2016 was £195.444 million which was held in the institutions listed in the following table, alongside their credit rating at that date:

| Financial Institution            | Short Term Rating | Amount Invested £million |
|----------------------------------|-------------------|--------------------------|
| <b>Bank Deposit Accounts</b>     |                   |                          |
| Handelsbanken                    | F1+               | 0.709                    |
| Santander UK plc                 | F1                | 1.075                    |
| Barclays                         | F1                | 13.722                   |
| <b>Fixed Term Deposits</b>       |                   |                          |
| Barclays                         | F1                | 18.296                   |
| Bank of Scotland                 | F1                | 54.887                   |
| Nationwide Building Society      | F1                | 22.870                   |
| Goldman Sachs                    | F1                | 32.017                   |
| National Westminster             | F2                | 18.296                   |
| Local Authorities                | N/A               | 10.200                   |
| National Savings and Investments | N/A               | 0.915                    |
| Money Market Funds               | N/A               | 22.458                   |
| <b>TOTAL</b>                     |                   | <b>195.444</b>           |

37 The investments listed above were held in the following sectors on 31 March 2016 for the time periods shown below:

| Sector                                      | Country | 0-3 months        | 6-12 months        | Total              |
|---|---------|-------------------|--------------------|--------------------|
| Banks                                       | UK      | £15million        | £123million        | £138million        |
| Banks                                       | Non-UK  | £1million         | 0                  | £1million          |
| Building Societies                          | UK      | -                 | £23million         | £23million         |
| Central Government/ Other Local Authorities | UK      | £11million        | -                  | £11million         |
| Money Market Funds                          | UK      | £22million        | -                  | £22million         |
| <b>TOTAL</b>                                |         | <b>£49million</b> | <b>£146million</b> | <b>£195million</b> |
|   |         | <b>25%</b>        | <b>75%</b>         |                    |

38 The following table provides information on the net interest earned during 2015/16 in comparison to the original budget, the average daily investment balance, and the average return in comparison to the average bank base rate and average 7 day London Interbank Bid (LIBID) rate:

|                                   | 2015/16       |
|-----------------------------------|---------------|
| Original budgeted net interest    | £1.641million |
| Actual Net Interest Earned        | £1.773million |
| Average Return Earned             | 0.68%         |
| Average 7 Day LIBID Rate          | 0.36%         |
| Average Bank of England Base Rate | 0.50%         |



## **Icelandic Deposits Update**

- 39 Prior to Local Government Review, one former District Council had £7m deposited across the Icelandic banks Glitnir Bank hf (£4m), Landsbanki (£2m) and Kaupthing Singer and Friedlander Ltd (£1m), which all collapsed financially in October 2008. The County Council inherited this position in April 2009.
- 40 The only outstanding balance as at 31 March 2016 is in relation to the investment with Kaupthing Singer and Friedlander Ltd (KSF). All monies with KSF are currently subject to the respective administration and receivership processes. As at 31 March 2016 82.5% of the outstanding balance has been repaid to the Council; 85.75% recovery is ultimately anticipated.

## **Recommendations and Reasons**

- 41 It is recommended that Cabinet note the Treasury Management outturn position for 2015/16 and agree to report this to Full Council on 21 September 2016.

## **Background Papers**

- a) 15 July 2016 – Cabinet - 2015/16 Final Outturn for General Fund, Housing Revenue Account and Collection Fund
- b) 25 February 2015 – County Council - General Fund Medium Term Financial Plan, 2015/16 to 2017/18 and Revenue and Capital Budget 2015/16
- c) 09 December 2016 – County Council - Mid-Year Report for the Period to 30 September 2015 on Treasury Management Service
- d) 24 February 2016 – County Council - Medium Term Financial Plan, 2016/17 – 2018/19 and Revenue and Capital Budget 2016/17

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## **Appendix 1: Implications**

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### **Finance**

The report details the Council's cash management, loans and investment activity in 2015/16. The report also provides the overall financing of the Council's capital expenditure, along with borrowing and investment income returns.

### **Staffing**

None.

### **Risk**

None.

### **Equality and Diversity / Public Sector Equality Duty**

None.

### **Accommodation**

None.

### **Crime and Disorder**

None.

### **Human Rights**

None.

### **Consultation**

None.

### **Procurement**

None.

### **Disability Issues**

None.

### **Legal Implications**

None.

**Audit Committee**

**29 July 2016**



**Statement of Accounts for the year ended  
31 March 2016**

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**Paul Darby, Interim Corporate Director Resources**

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**Purpose of the Report**

- 1 To present to Members the Statement of Accounts for the year ended 31 March 2016 and raise any significant issues arising from the accounts.

**Background**

- 2 The 'Accounts and Audit Regulations 2011' introduced a two stage approval process for the Statement of Accounts; the first stage is in June each year. The Regulations require that the responsible financial officer, by no later than 30 June 2016, signs and certifies that the Statement of Accounts presents a "true and fair view" of the financial position of the Council for the year to 31 March previous, subject to the views of the External Auditor. This stage was completed on 30 June 2016.
- 3 The second stage, as set out in the Regulations, requires that on or before the 30 September, approval needs to be given to the Statement of Accounts by resolution of a committee, which for Durham County Council is the Audit Committee. This approval will take into account the views of the External Auditor. This is done so that the Statement of Accounts can then be formally published.
- 4 The Statement of Accounts is currently subject to audit by Mazars LLP. The audit of the accounts is ongoing. On completion, the Auditor's report will be incorporated into the published version of the document.
- 5 The attached Statement of Accounts is available for inspection by the public from 1 July 2016 to 11 August 2016 in line with the Regulations and has been published on our website.

## **Statement of Accounts**

- 6 The Statement of Accounts for the financial year 2015/16 is prepared in accordance with the 'Accounts and Audit Regulations 2003', as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2009, the 'Accounts and Audit (England) Regulations 2015 and the 'Code of Practice on Local Authority Accounting 2015/16' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 7 The Code is based on approved accounting standards. In England and Wales, the local authority Code constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The Council is therefore legally required to follow this Code of Practice. Explanatory notes are included in the document to assist in the interpretation of the accounts, which unfortunately are unavoidably technical and complex.
- 8 To help Members in reading and interpreting the contents, Appendix 2 to this report briefly explains the purpose of each section of the Statement.

## **Key information from the Statement of Accounts**

- 9 Page numbers used in this report refer to the page numbers on the Statement of Accounts document and not those on the full pack of reports.
- 10 There are six core statements that provide fundamental information on the financial activities and position of the Council:
  - Movement in Reserves Statement (page 27)
  - Comprehensive Income and Expenditure Account (page 29)
  - Balance Sheet (page 30)
  - Cash Flow Statement (page 31)
  - Housing Revenue Account (page 137) and
  - Collection Fund (page 142).
- 11 The Statement of Accounts also includes the accounts for Durham County Council Pension Fund (page 149) for which the Council is the Administering Authority.

- 12 The Statement of Accounts shows that the Council's 'net worth' has increased in 2015/16 by £101.582 million to £568.129 million. This is due, in the main; to the entries actioned in 2015/16 to account for the transfer of the housing stock to County Durham Housing Group Limited on 13 April 2015. The Council received an Overhanging Debt Grant of £207.03 million from the government to repay its remaining housing attributable debt and premia associated with the premature repayment. The reduction in Long Term Liabilities as a result of the repayment of the housing loans in Long Term Borrowing was offset by a reduction in the value of Long Term Assets as a result of writing out the housing stock in Property, Plant and Equipment.
- 13 The Council has increased its usable reserves during 2015/16.
- a) The general reserve has increased by £0.204 million to £29.101 million. This reserve is held to cushion the impact of uneven cash flows, unexpected events or emergencies.
  - b) Earmarked reserves have increased by £27.086 million to £241.643 million. Earmarked reserves are held for specific future purposes. This increase is mainly due to the transfer of the Housing Revenue Account (HRA) Reserve closing balance (£23.156 million) to the earmarked reserves following the closure of the HRA in 2015/16.
- 14 The Pension Fund accounts show that its net assets as at 31 March 2015 have reduced by £13.758 million to £2.321 billion. Further information on the Pension Fund is contained within the Pension Fund's Annual Report, which will be published following the approval of the Accounts.

### **Audit of Accounts**

- 15 The final audit of the Statement of Accounts is now underway. At the end of this process, the Auditor will provide an Audit Completion Report detailing their comments and recommendation for improvements, based on the position at 31 March 2016.

### **Recommendation**

- 16 It is recommended that the Audit Committee:
- a. Consider the attached Statement of Accounts for the County Council for the financial year ended 31 March 2016.

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## **Appendix 1: Implications**

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### **Finance**

This report details the financial position of the Council as at 31 March 2016.

### **Staffing -**

None

### **Risk -**

None

### **Equality and Diversity -**

None

### **Accommodation -**

None

### **Crime and Disorder -**

None

### **Human Rights -**

None

### **Consultation -**

None

### **Procurement -**

None

### **Disability -**

None

### **Legal Implications -**

None

## Appendix 2: Statement of Accounts - Summary and Explanation

| Item   | Pages     | Explanation of Purpose and Content  |
|--|-----------|---|
| Narrative Report   | 3 - 22    | To offer interested parties an easily understandable effective guide to the most significant matters reported in the accounts.  |
| <b>Statement of Responsibilities for the Statement of Accounts</b> | 23        | Sets out the responsibilities of the Council and the Corporate Director Resources for the Statement of Accounts.  |
| Independent Auditor's Report to Durham County Council              | 24 - 26   | Once the Audit is completed the Auditor's report will be included.  |
| <b>Durham County Council Core Financial Statements</b>             |           |   |
| Movement in Reserves Statement                                     | 27 - 28   | This statement shows the movement in the year on the different reserves held by the Council analysed into 'usable' reserves and other reserves  |
| Comprehensive Income and Expenditure Account (CIES)                | 29        | 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.   |
| Balance Sheet  | 30        | The Balance Sheet shows the value as at the Balance Sheet date (31 March 2016) 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.  |
| Cash Flow Statement  | 31        | 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.   |
| Notes to the Core Financial Statements                             | 32 - 136  | The notes are important in the presentation of a true and fair view. They aim to assist in understanding by presenting information about the basis of preparation of the core financial statements; by disclosing information required by the Code that is not presented elsewhere; and by providing information that is not provided elsewhere but is relevant to the understanding of the accounts and shows the policies and procedures adopted in compiling the Accounts.                           |
| <b>The Housing Revenue Account (HRA)</b>                           | 137 - 141 | The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement. |

| <b>Item</b>  | <b>Pages</b> | <b>Explanation of Purpose and Content</b>   |
|--|--------------|---|
| <b>Collection Fund</b>                             | 142 - 148    | The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities, such as the Council, 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. |
| <b>Durham County Council Pension Fund Accounts</b> | 149 – 192    | Shows the operation and membership of the Pension Fund, the expenditure and income during the year and its financial position at 31 March 2016. Following the Accounts are notes providing further information.   |
| <b>Annual Governance Statement</b>                 | 193 - 212    | Gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the Council.   |
| <b>Glossary of Terms used in the Accounts</b>      | 213 - 229    | To help the reader understand terminology used in the Statement of Accounts.  |





# Statement of Accounts

## For the year ended 31 March 2016

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I hope that this document proves to be both informative and of interest to readers. The Council is keen to try to improve both the quality and suitability of information provided. On that basis your feedback would be welcome.

If you have suggestions or comments on either the format of the report or its content, or you would like any further information or further copies of this document, please contact:

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**Paul Darby C.P.F.A.**  
Interim Corporate Director Resources

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## **1. Message from Paul Darby CPFA – Interim Corporate Director Resources**

In the face of continued and unprecedented reductions in government funding, Durham County Council remains committed to the delivery of its vision and priorities, developed in consultation with the public, all of our partners and stakeholders.

All our plans setting out the aspirations and goals of the Council over the coming four years continue to be influenced and shaped by the Government's ongoing financial austerity programme and fundamental central policy changes which continue to dominate and challenge the Council, local government, and the public sector more generally.

It is the Council's view that the financial landscape for all local authorities will remain extremely challenging until at least 2019/20, resulting in the longest period of austerity in modern times and that this will undoubtedly be worsened by the outcome of the European Referendum vote to leave the European Union.

By the end of 2015/16, the Council had delivered £153.2m of financial savings and our forecasts currently show that the Council will need to make an estimated further £104.8m of savings over the four year period 2016/17 to 2019/20, resulting in a cumulative spending reduction of over £258m since 2010 to the end of 2019/20.

That said, the Council has continued to deliver a high standard of services during 2015/16, while successfully achieving all of our challenging savings targets in very difficult circumstances, in line with the Medium Term Financial Plan. All service groupings of the Council will continue to work together and build on our achievements in order to provide the best possible services for the people of County Durham.

Future savings requirements will have an increased impact on front line services. The emphasis since 2011/12 has been to minimise savings from front line services by protecting them wherever possible whilst maximising savings in management and support functions. This is becoming much more difficult however, as the scope for further savings in managerial and back office efficiencies are becoming exhausted following the delivery of the savings to date.

This document presents the published accounts for Durham County Council for the year ended 31 March 2016 – the 'Statement of Accounts'.

The Council continues to have a robust financial standing with sound and continuously improving financial management procedures and processes in place.

I aim to give the readers of these accounts and all interested parties, including electors, local residents, Council Members, partners and other stakeholders, information about the money that the Council has received and spent, and provide assurance that it has been accounted for properly, that the financial standing of the Council continues to be safe and secure and that services are being delivered using value for money principles at all times.

I hope that this document proves to be both informative and of interest to readers. The Council is keen to try to improve both the quality and suitability of information provided and your feedback would be welcome.

**Paul Darby CPFA**

**Interim Corporate Director Resources**

## 2. Introduction

The purpose of the Statement of Accounts is to give members of the public, electors, those subject to locally levied taxes and charges, members of the Council, employees and other interested parties clear information about the Council's finances so they can:

- Understand the financial position of the Council and the outturn for 2015/16;
- Have confidence in the Council's stewardship of public money and that it has been used and accounted for in an appropriate manner; and
- Be assured that the financial position of the Council is sound and secure.

The Statement of Accounts begins with this Narrative Report and has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). The style and format of the Statement of Accounts complies with CIPFA standards and is similar to that used in 2014/15.

This Narrative Report (a change in the requirements for 2015/16 and replacing the previous Explanatory Foreword) provides information about Durham, including key issues affecting the Council and its accounts. It also provides a summary of the financial position as at 31 March 2016 and details of the non-financial performance of the Council in 2015/16. The purpose is to provide an understandable guide to the most significant aspects of the Council's financial performance, year-end financial position and cash flows. The Narrative Report focuses on the matters that are of relevance to the principal users of the Statement of Accounts. As well as complementing and supplementing the information provided in the Accounts, it also provides a review of the issues that have affected the Council's development, performance and position during 2015/16 and those that are likely to impact in the future. This narrative report is structured as below:

|    |   |
|----|---|
| 1  | Message from the Interim Corporate Director Resources |
| 2  | Introduction  |
| 3  | An Introduction to Durham                             |
| 4  | An Introduction to Durham County Council              |
| 5  | Financial Performance of the Council 2015/16          |
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| 7  | Significant Issues for 2017 and Beyond                |
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| 9  | Summary Position                                      |
| 10 | Receipt of Further Information                        |
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### 3. An Introduction to Durham

County Durham is a unique place with a rich cultural history. Durham City has been an important spiritual centre and place of pilgrimage from early medieval times. Today, the castle and cathedral are recognised by UNESCO as a World Heritage site because of their international, cultural and physical significance and are a top attraction in the county for tourists from around the world. The historic market towns of Barnard Castle and Bishop Auckland also date from the Middle Ages. In its later history, County Durham became a centre for the industrial revolution, providing the country and developing empire with coal, steel and ships. The area also saw the development of the world's first passenger steam railway in 1825. An economic past of heavy industry based around mining, metal production and manufacturing leaves a legacy of diverse spatial geography across 12 main towns and numerous villages and smaller communities.

Today, Durham is a county of economic, cultural and environmental contrasts. It stretches from the remote rural North Pennine area of outstanding natural beauty in the west to the more densely populated East Durham heritage coastline, the whole of which has been extensively reclaimed from its heavy industrialised past.

Life expectancy at birth in County Durham has been improving over time for both males and females, although not as fast as for England. The absolute gap is increasing for both males and females. In County Durham, males from the most affluent areas will live 8.2 years longer than those from the most deprived areas. Females in the most affluent areas will live 6.7 years longer than those in the most deprived areas. These gaps have not changed significantly over time. Whilst the gap for males is smaller than the national average and similar to the England average for women, it should be noted that almost 50% of County Durham's population live in deprived areas and life expectancy is relatively low, therefore the difference between the most and least deprived is likely to be limited compared to the national average. There are a number of factors affecting health including lifestyle choices and wider determinants such as the social conditions in which we are born and live.

Durham is the most deprived authority in the North East region in terms of the scale of income deprivation with nearly half (42.4%) of its population living in the 30% most deprived neighbourhoods nationally. Latest data (2011) show that 22.1% of children live in low income families in County Durham compared to 17.5% nationally. 11.4% of households are also defined as living in fuel poverty i.e. they spend more than 10% of their income on fuel to maintain a standard level of warmth.

Interesting facts about your county:

- County Durham has a population of 517,773 the highest population of any local authority area in the North East region and the sixth largest all-purpose council in the country;

- All areas of the county have shown a growth in population since 2001 with Durham City and North Durham experiencing the largest growth rates;
- The working age population in County Durham has increased by 3% since 2001 but the population aged 65+ has increased by 24% in the same period;
- Key industries in County Durham are manufacturing with approximately 97% being small and micro businesses;
- Durham Castle and Cathedral is one of only 17 sites in England considered to be of such cultural importance that it is designated by UNESCO as a World Heritage Site;
- The remote and unspoiled countryside of the Durham Dales forms part of the North Pennines Area of Outstanding National Beauty; and
- The county has one of the finest coastlines in the country which has been recognised by Natural England and granted Heritage Coast status.

#### **4. An Introduction to Durham County Council**

Durham County Council was established along with other county councils in England and Wales in 1888. The latest reorganisation of local government in Durham in 2009 saw the abolition of the seven district and borough councils in the county and the creation of Durham County Council as a single all-purpose unitary authority providing the full range of local government services to the public.

We operate a leader and cabinet style model of political governance and the cabinet is made up of ten councillors. Our overview and scrutiny function is made up of six committees with an Overview and Scrutiny Management Board providing an oversight of the work of these committees which is made up of 26 councillors and 5 other representatives.

We are broadly comparable with a major company in size. We provide a large range of services that include: teaching our young people and caring for our older people; lending the latest best sellers and protecting 900 year old documents; fixing road bridges and creating bridges in our communities; helping children to swim and helping adults to work; planting trees in nature reserves and recycling paper from our homes. In fact, any local service you can think of, we will probably have a hand in it somewhere. To help us manage this undertaking, we employ a Chief Executive, Assistant Chief Executive and four Directors who make up the Corporate Management Team of the Council.

Interesting facts about your Council:

- Durham County Council has a gross budget of over £860m and employs around 8,500 staff - excluding schools;
- The Council maintains 3,690 km of highway, over 80,000 street lights, owns and manages 39 libraries, 10 leisure centres, 8 customer access points and 245 schools (excluding academies);

- We have 126 councillors representing 63 electoral divisions within County Durham, making us the largest elected body in England outside of the UK Parliament;
- The political makeup of the Council is as follows:
  - o 96 Labour,
  - o 17 Independent,
  - o 9 Liberal Democrat
  - o and 4 Conservative;
- Our administrative staff are concentrated at five strategic centres in Crook, Seaham, Spennymoor, Meadowfield and in our headquarters at County Hall in Durham;
- The council has 14 Area Action Partnerships which cover the whole county, these give residents the chance to set local priorities which are acted on through local projects.

## **5. Financial Performance of the Council 2015/16**

### **Revenue Outturn Position**

The Council's revenue outturn is shown in the table below. The original budget was set at the Council meeting on 25 February 2015 at £421.821million. The original budget set out how the Council planned to allocate its funding during the year in order to deliver services to the people and communities of Durham. During the financial year amendments were made to the Council's budget on a quarterly basis and approved by Cabinet.

In overall terms, the outturn was a variance (underspend) of £20.092million for the financial year when comparing actual net expenditure to the revised budgeted/planned net expenditure. The surplus for the year in respect of Service Groupings (£15.044million) has been allocated to the individual Cash Limit Reserves to meet future service demands. Of the remaining £5.048million, an additional amount of £4.844million was contributed to the Pension Deficit Earmarked Reserve, in lieu of a possible one off payment into the pension fund in 2016/17 to reduce future liabilities and Medium Term Financial Plan (MTFP) pressures associated with Pension Deficit payments in future years. The remaining balance of £0.204million was allocated to the Council's General Reserve.

|  | Original Budget | Revised Budget (Including Qtr 4 Cash Limit Adjustments) | Service Groupings Final Outturn | Variance       |
|--|-----------------|---|---------------------------------|----------------|
|  | £'000           | £'000   | £'000                           | £'000          |
| <b>Service Groupings</b>                               |                 |   |                                 |                |
| Assistant Chief Executive                              | 10,163          | 10,458  | 10,200                          | -258           |
| Children and Adults Services                           | 251,450         | 248,775   | 238,084                         | -10,691        |
| Neighbourhood Services                                 | 104,236         | 104,855   | 103,995                         | -860           |
| Regeneration and Economic Development Resources        | 41,535          | 26,828  | 25,012                          | -1,816         |
| Resources  | 15,855          | 16,842  | 15,423                          | -1,419         |
| <b>Sub - Total</b>                                     | <b>423,239</b>  | <b>407,758</b>  | <b>392,714</b>                  | <b>-15,044</b> |
| <b>Corporate Finance</b>                               |                 |   |                                 |                |
| Contingencies  | 5,690           | 3,194   | 0                               | -3,194         |
| Centrally Held Budgets                                 | 0               | -1,572  | -1,548                          | 24             |
| Corporate Costs  | 4,980           | 4,439   | 4,181                           | -258           |
| Capital, Treasury and Technical Accounting             | -12,088         | -4,543  | -5,982                          | -1,439         |
| Levies   | 0               | 16,555  | 16,555                          | 0              |
| <b>Sub - Total</b>                                     | <b>-1,418</b>   | <b>18,073</b>   | <b>13,206</b>                   | <b>-4,867</b>  |
| <b>Total Net Expenditure</b>                           | <b>421,821</b>  | <b>425,831</b>  | <b>405,920</b>                  | <b>-19,911</b> |
| <b>Funded By:</b>                                      |                 |   |                                 |                |
| Council Tax  | -174,134        | -174,134  | -174,137                        | -3             |
| Use of (-) / contribution to earmarked reserves        | -11,511         | 22,149  | 22,305                          | 156            |
| Estimated net surplus on Collection Fund               | -500            | -500  | -500                            | 0              |
| Start up Funding Assessment                            | -215,540        | -215,540  | -215,541                        | -1             |
| New Homes Bonus  | -8,322          | -8,322  | -8,323                          | -1             |
| New Homes Bonus - Re-imbursement                       | -377            | -377  | -374                            | 3              |
| Section 31 Grant - Small business rate relief          | -2,398          | -2,398  | -2,475                          | -77            |
| Section 31 Grant - Settlement Funding Assessment Adj.  | -919            | -919  | -919                            | 0              |
| Section 31 Grant - Retail Adjustment                   | -1,681          | -1,681  | -1,779                          | -98            |
| Education Services Grant                               | -6,002          | -6,002  | -6,006                          | -4             |
| Forecast contribution to / from (-) Cash Limit Reserve | -437            | -15,107   | -15,107                         | 0              |
| Forecast contribution from HRA Reserve                 | 0               | -23,000   | -23,156                         | -156           |
| <b>Total Funding</b>                                   | <b>-421,821</b> | <b>-425,831</b>   | <b>-426,012</b>                 | <b>-181</b>    |
| <b>Variance</b>  | <b>0</b>        | <b>0</b>  | <b>-20,092</b>                  | <b>-20,092</b> |

The main variances contributing to the underspend are as follows:

- There were cost pressures in respect of Home to School Transport and high demand and increased costs relating to 'Looked After Children' that were offset in Children and Adults Services (CAS) by the early achievement of a number of future year MTFP management and support service proposals. This, together with the careful management and control of vacancies and general budgets across the Adults area of the service has created a net underspend for the year of approximately £6.5million. A review of short term funds across adult care produced an additional estimated £3million of monies available to support future pressures. £1.1million of this one-off sum is to be carried forward to future years for specific projects, with the balance contributing to the CAS Cash Limit Reserve in 2015/16;
- £3.194million of the Contingencies budget remained unspent at the end of the financial year; and
- There has been an overachievement of investment income of £1.536m which is due to the higher than anticipated levels of cash balances held during 2015/16. This is due in the main to lower than expected use of reserves and



re-profiling of capital expenditure originally anticipated to be expended in 2015/16.

### Capital Outturn Position

The original General Fund capital budget for 2015/16, taking into account the budgets approved by Council on 25 February 2015 and adjustments for re-profiling of underspends at 2014/15 year end was £167.216 million. This was agreed by Cabinet on 15 July 2015.

Throughout the year, the Capital Member Officer Working Group (MOWG) has continually reviewed progress in delivering the capital programme to take into account changes in planning and delivery timescales and analysis of changes in demands on resources. Regular updates to the capital programme were reported to and approved by Cabinet as part of the quarterly budgetary control reports in year. Requests for re-profiling capital programme underspends at 31 March 2016 have also been considered by MOWG.

The Council spent £115.421million on its capital expenditure in 2015/16 compared to the revised forecast spend of £131.734million, representing an underspend of £16.313million. The Capital Programme was financed through a number of sources including borrowing, Government grants, revenue contributions, earmarked reserves and capital receipts. The capital expenditure incurred during the year and financing of this expenditure is shown in the table below:

|   | Revised Budget  | Service Groupings Final Outturn | Variance       |
|---|-----------------|---------------------------------|----------------|
|   | £'000           | £'000                           | £'000          |
| <b>Service Groupings</b>                        |                 |                                 |                |
| Assistant Chief Executive                       | 3,990           | 1,454                           | -2,536         |
| Children and Adults Services                    | 40,682          | 34,868                          | -5,814         |
| Neighbourhood Services                          | 40,903          | 37,721                          | -3,182         |
| Regeneration and Economic Development Resources | 34,543          | 31,993                          | -2,550         |
|   | 11,616          | 9,385                           | -2,231         |
| <b>Total</b>                                    | <b>131,734</b>  | <b>115,421</b>                  | <b>-16,313</b> |
| <b>Funded By:</b>                               |                 |                                 |                |
| Grants and Contributions                        | -52,318         | -52,172                         | 146            |
| Revenue and Reserves                            | -13,167         | -23,770                         | -10,603        |
| Capital Receipts                                | -16,631         | -10,183                         | 6,448          |
| Borrowing                                       | -49,618         | -29,296                         | 20,322         |
| <b>Total</b>                                    | <b>-131,734</b> | <b>-115,421</b>                 | <b>16,313</b>  |

The variance between the revised capital budget and the final outturn for the year was £16.313million. This underspend of planned expenditure will be re-profiled into 2016/17 and future years, together with the associated financing and therefore this does not present any financial issues for the Council.

## Other Key Financial Items in 2015/16

### Material Assets and Liabilities:

- As at 31 March 2016, the Council held £1,631.844million of Long Term Assets, £265.185million of Current Assets, £128.696million of Current Liabilities and £1,200.204million of Long Term Liabilities.
- Long Term Assets have reduced by £185.485million, which includes the following significant items:
  - A reduction of £167.475million in Property, Plant and Equipment assets which is mainly due to the transfer of the Housing Stock to the County Durham Housing Group Limited which took place on 13 April 2015, and assets written out of the balance sheet due to schools converting to Academy status.
  - A reduction of £18.250million in Long Term Investments mainly due to a £20million investment maturing in 2016/17 and as a result it was moved to Short Term Investments.
- Current Assets have increased by £31.397million, which includes the following significant items:
  - An increase of £73.188million in Short Term Investments due to investment management activities which result in movements between Short Term Investments, Long Term Investments and Cash and Cash Equivalents.
  - A reduction of £6.947million in Short Term Debtors, most of which is due to debts relating to Housing which were sold to the County Durham Housing Group Limited as part of the stock transfer.
  - A reduction of £39.772million in Cash and Cash Equivalents due to investment management activities and day to day cash flow changes.
- Current Liabilities have decreased by £7.152million, which includes the following significant items:
  - A reduction of £5.574million in the Cash and Cash Equivalents (overdraft).
  - An increase of £8.638million in Short Term Borrowing from Long Term Borrowing due to a number of loans maturing in 2016/17.
  - A reduction of £6.820million in Short Term Creditors.
- Long Term Liabilities have decreased by £248.518million in year, which includes the following significant items:
  - An increase of £4.866million in Long Term Provisions which takes into account an increase of £5.175million in the provision for appeals in respect of Business Rates.
  - A reduction of £221.531million in Long Term Borrowing, reflecting the repayment of £211.738million of outstanding Housing debt in 2015/16

as a result of the stock transfer and the movement of loans maturing in 2016/17 which were moved to Short Term Borrowing.

- A reduction of £31.450million in Other Long Term Liabilities mainly due to a reduction of £32.016million in the Pension Fund Liability.

#### Council's Borrowing Position:

- The Medium Term Financial Plan 2015/16 to 2017/18, Revenue and Capital Budget 2015/16 and 2015/16 Council House and Garage Rent Proposals Report, approved by Council on 25 February 2015, details the 2015/16 borrowing limits for the Council.
- The specific borrowing limits set relate to two of the prudential indicators that are required under the Prudential Code. The Council is required to set borrowing limits for the following three financial years. The limits for 2015/16 were as follows:
  - Authorised limit for external debt of £561million.
  - Operational boundary for external debt of £508million.
- As part of the Council's Treasury Management operation, these indicators are monitored on a daily basis, and neither was exceeded during 2015/16. The highest level of external debt incurred by the Council during the year was £457.375million.

## 6. Non-Financial Performance of the Council 2015/16

Against a backdrop of reducing resources and changing demand it is critical that the Council continues to actively manage performance and ensure that the impact on the public of the difficult decisions the Council has had to make is minimised.

The Council works hard to provide the best services for people living in, working in and visiting County Durham. To measure how we are doing and find where we need to improve, we monitor a set of performance indicators. This information is compiled in quarterly reports and discussed at Cabinet meetings every quarter. Key performance indicator progress is reported against two indicator types which comprise of:

- Key target indicators – targets are set for indicators where improvements can be measured regularly and where improvement can be actively influenced by the Council and its partners; and
- Key tracker indicators – performance will be tracked but no targets are set for indicators which are long-term and/or which the Council and its partners only partially influence.

Throughout 2015/16 the Council improved or maintained performance in 67% of the key target performance indicators compared with 76% in 2014/15. 70% of the target indicators

were approaching, meeting or exceeding target compared to 77% in 2014/15. Performance for tracker indicators is more positive with 83% improved or maintained compared to 65% in 2014/15. 93% of Council Plan actions have been achieved or are on target to be achieved by the deadline, the same proportion as in 2014/15.

You can find the full Quarter Four 2015/16 Performance Management Report on our website - [Cabinet agenda and minutes 15 June 2016 \(Agenda Item 5\)](#).

## **Council Plan 2016-2019**

The Council Plan is the high level plan and is underpinned by a series of plans for service groupings. The Council Plan and service plans cover three years and are updated annually.

The Plan links closely with the Budget/Medium Term Financial Plan (MTFP) and sets out how we will consider our corporate priorities for improvement, and the key actions we will take, working with our partners, to deliver the longer-term goals in the Sustainable Community Strategy and our own improvement agenda.

The actions within the Plan are structured around the five priority themes for County Durham, plus an additional one specifically for the council:

- **Altogether Wealthier** - focusing on creating a vibrant economy and putting regeneration and economic development at the heart of all our plans. This theme remains the top priority of the Council, with its main aim to improve the economy and job prospects across the county.

### **Objectives**

- Thriving Durham City
- Vibrant and successful towns
- Sustainable neighbourhoods and rural communities
- Competitive and successful people
- A top location for business

### **Achievements 2015/16**

- Established 'Chapter Homes' a new housing delivery company which will build new housing for market rent and sale commencing with Phase 1 in Newton Aycliffe which will provide 125 homes.
- Hosted the 4th Lumiere festival in November 2015, which attracted around 200,000 visitors to the City, along with the Magna Carta exhibition in the summer of 2015 which attracted 25,000 visitors from across the globe.

- Supported the development of Bishop Auckland as a major tourist destination including a medieval open air night show ‘Kynren’ which will create employment in the town and visitors to the area.
  - Supported the opening of Hitachi rail manufacturing in Newton Aycliffe and the creation of thousands of high value employment opportunities.
  - Secured £20m of additional funding to provide additional infrastructure in Newton Aycliffe and Sedgefield to support additional high tech and manufacturing employment opportunities.
  - Successful completion of traffic projects in Durham City; Sunderland Bridge Roundabout and Milburngate Bridge which was completed ahead of schedule.
  - Secured over £18m of European and external funding to support a major employment support programme for young people in the county.
  - Delivered physical regeneration improvements to enhance the economic viability of major town centres, including: footpath, lighting, signage and seating at Peterlee, Seaham, Crook and Consett.
  - Delivered superfast broadband through the Digital Durham programme with over 63,040 premises able to access improved broadband services since the programme began in April 2014.
  - Durham County Council was awarded the PATROL Annual Report Award (Parking and Traffic Regulations Outside London) for proactively publishing information about traffic management to help the public better understand parking regulations. This good practice approach has been adopted by other local authorities.
  - Transferred our remaining housing stock to the County Durham Housing Group Ltd.
- **Altogether Better for Children and Young People** - enabling children and young people to develop and achieve their aspirations, and to maximise their potential in line with Every Child Matters.

### **Objectives**

- Children and young people realise and maximise their potential
- Children and young people make healthy choices and have the best start in life
- A Think Family approach is embedded in our support for families

### **Achievements 2015/16**

- New ‘Families First’ teams have been established across the county, made up of social workers, family support workers and other

specialist staff who have a wide range of skills and expertise to help children, young people and their families achieve and maintain good progress. The teams also work with the voluntary and community sector to ensure that there are long-term sustainable plans in place for the family when they no longer need our support.

- Established a Multi-Agency Safeguarding Hub (MASH) which works as a central point for the screening, gathering, sharing and analysing of information about children who may be at risk of harm or who may need support services.
- Successfully completed Phase 1 of the Stronger Families Programme, to improve poor school attendance, unemployment, youth crime and adult anti-social behaviour, as well as a wide range of local criteria such as health, housing and domestic abuse. By March 2015, 1,320 families had a successful intervention (100% of County Durham overall target).
- Engaged with over 8,000 secondary school pupils through the Student Voice Survey to determine their views on a range of subjects and issues to inform our services, in particular our Education services.
- The council became responsible for commissioning 0-5 years health services including the health visitor service. Whilst carrying out our statutory duties, we have also reviewed commissioning for services for 5-19 year olds and are putting in place an integrated approach to health improvement services and service delivery for 0-19 year olds.

- **Altogether Healthier** – improving Health and Wellbeing.

**Objectives**

- Children and young people make healthy choices and have the best start in life
- Reduce health inequalities and early deaths
- Improve the quality of life, independence and care and support for people with long term conditions
- Improve the mental and physical wellbeing of the population

**Achievements 2015/16**

- The County Durham Health and Wellbeing Board, which promotes integrated working between commissioners of health services, public health and social care and includes representatives from the council and health services was shortlisted for a national award for its effectiveness.

- Survey results show that service users and carers in the county were more satisfied with the care and support services they received than the national average.
  - The number of people whose discharge from hospital was delayed is lower in County Durham than nationally and regionally.
  - County Durham was selected as a national pilot site for a diabetes prevention programme. The programme is led by Public Health in partnership with Clinical Commissioning Groups and is one of only seven in the country.
  - We launched an online directory of care and support services called LOCATE, which provides local people with details of available services and information.
  - Joint Consett Academy and Leisure Centre opened.
  - Pearl Izumi Tour Service cycle race attracted 12,500 spectators to Durham City contributing almost £300,000 to the local economy.
- **Altogether Safer** - creating a safer and more cohesive county.

### **Objectives**

- Reduce anti-social behaviour
- Protect vulnerable people from harm
- Reduce re-offending
- Alcohol and substance misuse harm reduction
- Implement measures to promote a safe environment
- Embed the Think Family approach

### **Achievements 2015/16**

- The County Durham Youth Offending Service received an award for its work on Speech, Language and Communication Needs, to support young people who offend.
- Supported the establishment of the Durham Tees Valley Community Rehabilitation Company, which aims to reduce re-offending in the county, protect the public and provide successful and effective rehabilitation services for offenders.
- Introduced an integrated drug and alcohol recovery service and developed six recovery centres across the county, to provide consistent, high quality, recovery-focused interventions for all people irrespective of age or level of substance misuse.
- The number of first time entrants to the youth justice system continues to reduce. We have achieved an 82.9% reduction in first time entrants, from 1,129 in 2007/08 to 193 in 2014/15.

- Durham has the lowest overall crime rate when compared to similar police force areas.
  - Implemented a Multi-Agency Intervention Service (MAIS) to provide tailor-made support to help vulnerable and 'at risk' adults.
  - Introduced a programme of riverside safety improvements in Durham City in partnership with Durham City Safety Group.
  - Promoted a safer and healthier road environment by introducing Phase 1 of part-time 20 mph speed limits on main and distributor roads near schools in the county.
  - New, revised open water safety policy/procedures outlining how open water risks are managed and promoting good practice across privately owned open water sites.
- **Altogether greener** - ensuring an attractive and 'liveable' local environment, and contributing to tackling global environmental challenges.

### **Objectives**

- Deliver a clean, attractive and sustainable environment
- Maximise the value and benefits of Durham's natural environment
- Reduce carbon emissions and adapt to the impact of climate change

### **Achievements 2015/16**

- Delivered a programme of effective campaigns to tackle environmental crime, including dog-fouling, fly-tipping and litter.
- Reduced the carbon footprint of our operations through re-programming our refuse and recycling routes, reducing energy across our buildings and reducing business mileage.
- Replaced 32,000 street lights as part of the Street Lighting Energy Reduction Programme saving energy costs to the taxpayer and reducing carbon emissions.
- Increased energy production from landfill capping where electricity is generated from landfill gas.
- Delivered a programme of waste campaigns designed to help reduce contamination in household recycling ('Bin It Right') and encourage students to recycle waste ('Green Move Out').
- Extended wildflower planting schemes to roundabouts and verges helping reverse the trend of habitat loss and creating food and homes for wildlife.
- Continuation of the work of our Community Action Teams to improve the condition of local housing and environments.



- Delivered our flood defence programme including the refurbishment of Seaham's historic North Pier and flood prevention works at Witton Gilbert.
  - Development of the Air Quality Action Plan to improve air quality across Durham City.
  - Refurbished three waste transfer stations giving improved recycling facilities and more scope to recycle.
  - Fly Tipping incidents continue to fall following education and proactive enforcement activity.
  - Over 96% of waste collected by the council has been diverted from landfill to recycling reuse, composting and generating energy.
- **Altogether better council** - ensuring corporate improvements are achieved against the five priority themes.

### **Objectives**

- Putting the customer first
- Working with our communities
- Effective use of resources
- Support our people through change

### **Achievements 2015/16**

- Delivered £153.2m of financial savings to 31 March 2016 since the beginning of austerity in 2011.
- A new website which is quicker and easier to use was launched last year which is also better to use with tablets and mobile phones.
- Procurement of a new customer system to more effectively track and manage communications with and improve the customer experience.
- Improved our customer complaints process to respond to complaints more quickly and efficiently.
- More self-serve facilities have been introduced which allow people to access services through our website on a 24/7 basis.
- Managed a successful Parliamentary election in May 2015.
- Received £1.4m from the Government's Transformation Challenge Award fund to help achieve the Durham Ask ambition. This is an exciting opportunity we are offering to local communities to take over the management and delivery of Council services and facilities by transferring assets to local community control.
- Secured £90,000 of 'Delivering Differently' funding to work with town and parish councils on clean and green services.

- Nearly 11,000 residents and businesses have registered to access and manage their council tax, business rates or housing benefits payment accounts online.
- Community Buildings Strategy, one of the biggest and most ambitious asset transfer programmes in the UK:
  - 97 centres have been maintained for community use through this initiative
  - Shortlisted for two 2016 LGC Awards
  - Local management groups have already accessed £639,000 external funding not available to the Council and have bid for a further £5.2m.

## **7. Significant Issues for 2016/17 and Beyond**

### **Economic climate**

Since 2010 Durham County Council has faced significant financial challenges due to reductions in funding from central government along with cost pressures within services and greater volatility in financing. This austerity programme is on-going and will last until at least 2019/20. The Council will need to review its position in light of Government policy announcements and take account of the impact of the European Referendum result as it feeds through into Government spending plans. In November 2015 the Autumn Statement set out the strategic direction for public expenditure. This outlined a number of significant changes to the local government funding regime which will have a significant impact on the Council's finances over time. These included:

- Providing local authorities with the power to levy a 2% increase on Council Tax to fund adult social care. For Durham, this equates to an additional £3.574m of revenue;
- By the end of the Parliament local government will retain 100% of business rate revenues to fund local services. In addition the Uniform Business Rate will be abolished and any local area will be able to cut business rates at their discretion. The earliest these reforms are likely to be implemented is 2020;
- Greater flexibility for local authorities to use capital receipts to fund the revenue costs of business transformation projects;
- The government announced real-terms public health savings of 3.9% over the next 5 years and the Autumn Statement indicated that social care funds of £1.5bn would be made available by 2019/20 (beginning from 2017/18) for local government, to be included in an improved Better Care Fund; and
- A National Funding Formula for Schools will be introduced in 2017/18.

Government figures highlight significant challenges ahead for councils who will have to make savings, despite receiving a flat-cash settlement over the next four years, sufficient

to compensate for any additional cost pressures they face. These include those arising from general inflation, cost pressures in the care sector, increases in the number of adults and children needing support and rising levels of need, increases in demand for everyday services as the population grows, and increases in core costs such as national insurance, the National Living Wage and pension contributions.

The MTFP sets out the Council's approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards corporate priorities. The MTFP describes the financial direction of the Council over the planning period and outlines the financial pressures it will face.

## **Devolution**

The North East Combined Authority and seven north east authorities have been in discussions with the Government regarding the devolution of a number of powers and the election of a regional mayor. At a meeting held on 11 May 2016 Cabinet agreed to move to the next stage of the devolution process - to create a mayoral combined authority for the North East.

The decision is subject to a number of conditions, including that County Durham is not left worse off by the Government's proposals on transport and highways funding; that conditions are met in relation to mayoral powers and governance; and the commitment that ongoing discussions with Government will deliver fair funding.

In March 2016 Cabinet members deferred their decision in relation to the devolution proposals so that further clarification and commitment could be sought from Government in relation to a number of outstanding issues.

The report to Cabinet in May 2016 sets out the progress made in addressing the outstanding issues raised in March, as well as the potential consequences of agreeing or not agreeing to be part of a mayoral combined authority area.

## **Pensions**

The next triennial review of the Local Government Pension Scheme (LGPS) will be as at 31 March 2016, and will impact from 2017/18. Given historic trends, the valuation is likely to result in additional cost pressures. Increased pension deficit payments have been included in the Council's MTFP.

## **EU Referendum**

While unclear what the actual local implications may be at this stage, the impact of the vote to leave the European Union is expected to lead to increased instability and uncertainty in respect of the financial context for councils and regions. The Council will continue to update its MTFP projections as appropriate.

## **8. Corporate Risks**

The Council has an embedded process to manage risks and assist with the achievement of its strategic objectives, alongside national and local performance targets. The Strategic Risk Register plays an integral role in the production of the Corporate Plan and is subject to a quarterly review by Audit Committee, including when it approves the Statement of Accounts.

The Council's key strategic risks are:

- If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses;
- Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services; and
- If the Council were to fail to comply with Central Government's Public Services Network Code of Connection and PPCI criteria for our computer applications, this would put some of the core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data.

## **9. Summary Position**

It is clear that the Council's financial and non-financial performance in 2015/16 continues to be good. The revenue outturn with a £20.092m underspend is in line with expectations and quarter three projections, capital outturn has been managed to minimise the level of re-profiling required at the year end and the Council has sufficient reserves and balances to provide financial resilience for 2016/17 and future years.

In 2015/16, the Council has faced and dealt successfully with significant change. This trend will continue and indeed accelerate as the devolution agenda takes shape and the outcome of European Referendum result becomes clear but the Council is well placed to adapt to the challenges and to take advantage of the opportunities offered. There are risks as highlighted above, but there are well established and robust risk management processes in place and, together with robust financial management and reporting, the Council is in a strong position as it moves into 2016/17.

## **10. Receipt of Further Information**

If you would like to receive further information about these accounts, please contact the Interim Corporate Director Resources, Durham County Council, County Hall, Durham DH1 5UE.

## **11. Explanation of Accounting Statements**

### **Movement in Reserves Statement**

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 'unusable' reserves. The Surplus or 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. This is 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 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 (CIES)**

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**

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 is 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**

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.

### **Notes to the Accounts**

The notes are fundamentally important in the presentation of a true and fair view. They aim to assist understanding and have three significant roles: presenting information about the basis of preparation of the financial statements and the specific accounting policies used; disclosing information required by the Code that is not presented elsewhere in the financial statements, for example sub-classification of the Property, Plant and Equipment; and providing information that is not provided elsewhere in the financial statements, but is relevant to the understanding of any of them. This applies to information that is material in a qualitative rather than quantitative sense, for example, transactions with Related Parties.

### **The Housing Revenue Account (HRA)**

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

### **Collection Fund**

The Collection Fund is an agent's statement that reflects the statutory obligation 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.

### **Durham County Council Pension Fund Accounts**

Shows the operation and membership of the Fund, the expenditure and income during the year and its financial position at 31 March 2016. Following the Accounts are notes providing further information.

### **Annual Governance Statement**

This Statement gives assurance that the Council has conducted a review of the effectiveness of its systems of internal control and that the appropriate mechanisms are in place for the maintenance of good governance across the activities of the Council.

### **Glossary of Terms**

A glossary of financial terms is provided to assist the reader's understanding.

## **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. For the Council that officer is the Corporate Director Resources.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

## **The Corporate Director Resources' Responsibilities**

The Corporate Director Resources is responsible for the preparation of the Council's Statement of Accounts which is in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

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

The Corporate Director Resources has also:

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

## **Certificate of the Interim Corporate Director Resources**

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council as at 31 March 2016 and its expenditure and income for the year ended 31 March 2016.

Paul Darby  
Interim Corporate Director Resources  
30 June 2016

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DURHAM  
COUNTY COUNCIL**







2015/16:

|   | General Fund Balance<br>£000 | Earmarked General Fund Reserves<br>£000 | Housing Revenue Account<br>£000 | Earmarked HRA Reserves<br>£000 | Capital Receipts Reserve<br>£000 | Capital Grants unapplied Account<br>£000 | Total Usable Reserves<br>£000 | Unusable Reserves<br>£000 | Total Authority Reserves<br>£000 |
|---|------------------------------|---|---------------------------------|--------------------------------|----------------------------------|--|-------------------------------|---------------------------|----------------------------------|
| <b>Balance at 1 April 2015 brought forward</b>                                    | 28,897                       | 214,557                                 | 26,078                          | -                              | 219                              | 609                                      | <b>270,360</b>                | 196,187                   | <b>466,547</b>                   |
| <b>Movement in Reserves during 2015-16</b>  |                              |   |                                 |                                |                                  |  |                               |                           |                                  |
| Surplus or deficit on provision of services                                       | -67,444                      | -                                       | 111,180                         | -                              | -                                | -  | <b>43,736</b>                 | -                         | <b>43,736</b>                    |
| Other Comprehensive Income and Expenditure  | -                            | -                                       | -                               | -                              | -                                | -  | -                             | 57,845                    | <b>57,845</b>                    |
| <b>Total Comprehensive Income and Expenditure</b>                                 | <b>-67,444</b>               | <b>-</b>                                | <b>111,180</b>                  | <b>-</b>                       | <b>-</b>                         | <b>-</b>                                 | <b>43,736</b>                 | <b>57,845</b>             | <b>101,581</b>                   |
| Adjustments between accounting basis and funding basis under regulations (Note 7) | 71,577                       | -                                       | -114,101                        | -                              | 143                              | -85                                      | <b>-42,466</b>                | 42,466                    | -                                |
| <b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>               | <b>4,133</b>                 | <b>-</b>                                | <b>-2,921</b>                   | <b>-</b>                       | <b>143</b>                       | <b>-85</b>                               | <b>1,270</b>                  | <b>100,311</b>            | <b>101,581</b>                   |
| Transfers to/from Earmarked Reserves (Note 8)                                     | -3,929                       | 27,086                                  | -23,157                         | -                              | -                                | -  | -                             | -                         | -                                |
| <b>Increase/Decrease in Year</b>  | <b>204</b>                   | <b>27,086</b>                           | <b>-26,078</b>                  | <b>-</b>                       | <b>143</b>                       | <b>-85</b>                               | <b>1,270</b>                  | <b>100,311</b>            | <b>101,581</b>                   |
| <b>Balance at 31 March 2016 carried forward</b>                                   | <b>29,101</b>                | <b>241,643</b>                          | <b>-</b>                        | <b>-</b>                       | <b>362</b>                       | <b>524</b>                               | <b>271,630</b>                | <b>296,498</b>            | <b>568,128</b>                   |

Movement in Reserves Statement

2014/15:

|   | General Fund Balance<br>£000 | Earmarked General Fund Reserves<br>£000 | Housing Revenue Account<br>£000 | Earmarked HRA Reserves<br>£000 | Capital Receipts Reserve<br>£000 | Capital Grants unapplied Account<br>£000 | Total Usable Reserves<br>£000 | Unusable Reserves<br>£000 | Total Authority Reserves<br>£000 |
|---|------------------------------|---|---------------------------------|--------------------------------|----------------------------------|--|-------------------------------|---------------------------|----------------------------------|
| <b>Balance at 1 April 2014 brought forward</b>                                    | 28,135                       | 165,952                                 | 7,155                           | 1,043                          | 219                              | 722                                      | <b>203,226</b>                | 479,547                   | <b>682,773</b>                   |
| <b>Movement in Reserves during 2014-15</b>  |                              |   |                                 |                                |                                  |  |                               |                           |                                  |
| Surplus or deficit on provision of services                                       | 59,989                       | -                                       | -324,391                        | -                              | -                                | -  | <b>-264,402</b>               | -                         | <b>-264,402</b>                  |
| Other Comprehensive Income and Expenditure  | -                            | -                                       | -                               | -                              | -                                | -  | -                             | 48,176                    | <b>48,176</b>                    |
| <b>Total Comprehensive Income and Expenditure</b>                                 | <b>59,989</b>                | <b>-</b>                                | <b>-324,391</b>                 | <b>-</b>                       | <b>-</b>                         | <b>-</b>                                 | <b>-264,402</b>               | <b>48,176</b>             | <b>-216,226</b>                  |
| Adjustments between accounting basis and funding basis under regulations (Note 7) | -10,622                      | -                                       | 342,271                         | -                              | -                                | -113                                     | <b>331,536</b>                | -331,536                  | -                                |
| <b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>               | <b>49,367</b>                | <b>-</b>                                | <b>17,880</b>                   | <b>-</b>                       | <b>-</b>                         | <b>-113</b>                              | <b>67,134</b>                 | <b>-283,360</b>           | <b>-216,226</b>                  |
| Transfers to/from Earmarked Reserves (Note 8)                                     | -48,605                      | 48,605                                  | 1,043                           | -1,043                         | -                                | -  | -                             | -                         | -                                |
| <b>Increase/Decrease in Year</b>  | <b>762</b>                   | <b>48,605</b>                           | <b>18,923</b>                   | <b>-1,043</b>                  | <b>-</b>                         | <b>-113</b>                              | <b>67,134</b>                 | <b>-283,360</b>           | <b>-216,226</b>                  |
| <b>Balance at 31 March 2015 carried forward</b>                                   | <b>28,897</b>                | <b>214,557</b>                          | <b>26,078</b>                   | <b>-</b>                       | <b>219</b>                       | <b>609</b>                               | <b>270,360</b>                | <b>196,187</b>            | <b>466,547</b>                   |



| <b>31 March 2015</b>                    |                                    | <b>31 March 2016</b> |                   |
|---|------------------------------------|----------------------|-------------------|
| <b>£000</b>                             | <b>Notes</b>                       | <b>£000</b>          |                   |
| 1,746,421                               | Property, Plant & Equipment        | 12                   | 1,578,946         |
| 15,459                                  | Heritage Assets                    | 13, 48               | 15,445            |
| 3,743                                   | Investment Property                | 14                   | 2,267             |
| 1,757                                   | Intangible Assets                  |                      | 1,177             |
| 30,577                                  | Long Term Investments              | 15                   | 12,327            |
| 19,372                                  | Long Term Debtors                  | 15                   | 21,682            |
| <b>1,817,329 Long Term Assets</b>       |                                    |                      | <b>1,631,844</b>  |
| 83,443                                  | Short Term Investments             | 15                   | 156,631           |
| 3,231                                   | Assets Held for Sale               | 20                   | 6,660             |
| 3,567                                   | Inventories                        | 17                   | 5,066             |
| 64,349                                  | Short Term Debtors                 | 18                   | 57,402            |
| 79,198                                  | Cash and Cash Equivalents          | 19                   | 39,426            |
| <b>233,788 Current Assets</b>           |                                    |                      | <b>265,185</b>    |
| -6,010                                  | Cash and Cash Equivalents          | 19                   | -436              |
| -4,442                                  | Short Term Borrowing               | 15                   | -13,080           |
| -114,269                                | Short Term Creditors               | 21                   | -107,449          |
| -4,498                                  | Provisions                         | 22                   | -3,397            |
| -6,629                                  | Capital Grants Receipts in Advance | 37                   | -4,334            |
| <b>-135,848 Current Liabilities</b>     |                                    |                      | <b>-128,696</b>   |
| -9,291                                  | Provisions                         | 22                   | -14,157           |
| -457,752                                | Long Term Borrowing                | 15                   | -236,221          |
| -981,276                                | Other Long Term Liabilities        | 40, 41, 45           | -949,826          |
| -403                                    | Capital Grants Receipts in Advance | 37                   | 0                 |
| <b>-1,448,722 Long Term Liabilities</b> |                                    |                      | <b>-1,200,204</b> |
| <b>466,547 Net Assets</b>               |                                    |                      | <b>568,129</b>    |
| 270,360                                 | Usable Reserves                    | 23                   | 271,630           |
| 196,187                                 | Unusable Reserves                  | 24                   | 296,499           |
| <b>466,547 Total Reserves</b>           |                                    |                      | <b>568,129</b>    |

| <b>2014-15</b> |   | <b>2015-16</b> |
|----------------|---|----------------|
| <b>£000</b>    |   | <b>£000</b>    |
| 264,401        | Net surplus (-) or deficit on the provision of services   | -43,736        |
| -374,227       | Adjustments to net surplus or deficit on the provisions of services for non-cash movements (Note 25)  | 85,456         |
| 13,207         | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 26) | 124,027        |
| <hr/>          |   | <hr/>          |
| -96,619        | Net Cash flows from Operating Activities (Note 27)  | 165,747        |
| 105,109        | Investing Activities (Note 28)  | -212,770       |
| -30,869        | Financing Activities (Note 29)  | 81,221         |
| <hr/>          |   | <hr/>          |
| -22,379        | Net increase (-) or decrease in cash and cash equivalents   | 34,198         |
| 50,809         | Cash and cash equivalents at 1 April  | 73,188         |
| <hr/>          |   | <hr/>          |
| <b>73,188</b>  | <b>Cash and cash equivalents at 31 March</b>  | <b>38,990</b>  |
| <hr/>          |   | <hr/>          |

## Notes to the Core Financial Statements

### Notes to the Core Financial Statements

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**The values within the financial statements are disclosed with roundings which are appropriate to their individual presentation. Consequently, the tables in the Statement of Accounts may contain rounding differences.**



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## Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Council is required by the Accounts and Audit (England) Regulations 2011 to prepare an annual Statement of Accounts. In line with the Regulations, the Statement of Accounts is prepared in accordance with proper accounting practices.

Those practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) and the Service Reporting Code of Practice 2015/16 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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 Code requires that a Local Authority's Statement of Accounts is prepared on a 'going concern' basis, that is, the accounts are based on the assumption that the Council will continue in operational existence for the foreseeable future.

### 2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The County Council has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £1,000 other than in exceptional circumstances.

### **3. Business Improvement District Schemes**

A Business Improvement District (BID) scheme was applied across Durham City centre. The scheme is funded by a BID levy paid by city centre non-domestic ratepayers. The Council acts as the billing authority for the scheme (collecting and distributing the levy income). The BID levy income is revenue due to The Durham BID Company Limited (the BID body) and as such the Council has nothing to show in its Comprehensive Income and Expenditure Statement, since it is collecting the BID levy income as an agent on behalf of the BID body.

### **4. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 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.

### **5. Exceptional Items**

When exceptional 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 Accounts, depending on how significant the items are to an understanding of the Council's financial performance.

### **6. 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 otherwise stated) 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.

## **7. 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.
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. 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 amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **8. Employee Benefits**

### **Benefits Payable During Employment**

Short-term employee benefits are those due to be settled 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. These 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. 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. These benefits are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement 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 balance 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. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits. These are replaced with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year end.

## **Post Employment Benefits**

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

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

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council. However, the arrangements for the Teachers' and 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 defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The Public Health line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension scheme in the year.

## **The Local Government Pension Scheme**

The Local Government 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 3.4% (based on the indicative rate of return on high quality corporate bonds, Aon Hewitt GBP Select AA Curve).
- The assets of Durham County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  1. Quoted securities – current bid price.
  2. Unquoted securities – professional estimate.
  3. Unitised securities – current bid price.
  4. 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 arising from current year decisions 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 as part of Non Distributed Costs.
  - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
  - Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Remeasurements, comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Durham County Council Pension Fund – cash paid as employer’s contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations 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.

## **9. 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.
- 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.

## **10. 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. The write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### **Financial Assets**

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.

- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

### **Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, and amounts are material, 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 voluntary organisations, 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.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.



## Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price.
- Other instruments with fixed and determinable payments – discounted cash flow analysis.
- Equity shares with no quoted market prices – independent appraisal of company valuations.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of

the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

## **11. Foreign Currency Translation**

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **12. 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 acquired using 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.

### **13. Heritage Assets**

#### **Tangible and Intangible Heritage Assets**

A tangible heritage asset is defined as a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

An intangible heritage asset is defined as an intangible asset with cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events. At present, the Council have no assets of this nature to be disclosed in the Balance Sheet.

A key feature of heritage assets is that they have cultural, environmental or historical associations that make their preservation for future generations important. Heritage assets are maintained principally for their contribution to knowledge and culture. Where an asset meets the definition of a heritage asset but is used for operational purposes, it is not classified as a heritage asset. For example, a historic building used as a museum is classified within land and buildings, as this is its primary purpose, but the exhibits within it may be classified as heritage.

#### **Recognition and measurement**

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets and the County Council's approach is as follows:

- Heritage assets' valuations are based on insurance values, where available, as this is the most appropriate and relevant basis. In some cases, these values are supported by professional valuations, for example by auction houses.
- Insurance values are reviewed regularly and assets will be revalued where a change is deemed to be significant.
- In the absence of insurance values, for example where an asset is either not insured or is self-insured, the asset's most recent valuation before reclassification is used. This is usually historic cost but some buildings and monuments were measured on an Existing Use Value (EUV) basis prior to reclassification.
- Where no appropriate valuation is available, heritage assets are not recognised on the Balance Sheet, however they are disclosed in the narrative notes to the financial statements.

Items are recognised on the balance sheet where they are held by the Council on long-term loan or where the Council has the risks and rewards of ownership, as evidenced by the need to insure them. Similarly, items that the Council has lent out long-term are not recognised. Items held on short-term loan, for example for temporary exhibitions, are not recognised.

The Council is custodian or guardian of a number of monuments or sites. These are considered to be heritage assets; however they do not usually have any appropriate valuation so they are not recognised on the Balance sheet.

The Council's collections of heritage assets are accounted for as follows:

### **Museum Collections and Artefacts**

This includes museum exhibits and items such as books of remembrance and miners banners. Some items in this collection are reported in the Balance Sheet at insurance value, others at the amount at which they have been valued by professional valuers.

### **Artwork, including Public Art and Sculptures**

This includes paintings, sculptures and outdoor public art installations around the county. Some items in this collection are reported at insurance value, others at cost and some at the amount at which they have been valued by professional valuers. There are a number for which no value is available so they are not reported on the Balance Sheet.

The distinction between sculptures, monuments and statues can be subjective. However for the purposes of classification, the Council has determined that sculptures are generally modern, commissioned pieces of art, monuments can be modern or historic and are usually dedicated to people or events and statues are usually historical structures. Monuments and statues are included under the heading "Monuments, Statues and Historic Buildings" below.

### **Monuments, Statues and Historic Buildings**

This includes war and colliery memorials, statues and non-operational historic buildings around the county. Some items in this collection are reported at insurance value, some at existing use value and some at cost. There are a number for which no value is available and are not reported on the balance sheet.

### **Civic Regalia and Silverware**

This includes civic chains, badges of office and silverware used for civic purposes, and are recorded at insurance value, or the amount at which they have been valued by professional valuers.

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**Geophysical / Archaeological**

This includes pit wheel sites and Roman archaeological sites. No appropriate or relevant valuations are available for these assets so they are not recognised on the Balance Sheet.

**Depreciation**

Depreciation is not charged on heritage assets which have indefinite lives.

**Impairment**

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.

**Disposal**

Heritage assets are rarely disposed of. However, in such cases, disposal proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. 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.

**14. Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted 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 the Capital Receipts Reserve.

#### **15. Interests in Companies and Other Entities**

The Code 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 jointly controlled entities against the criteria for group accounts, as set out in the Code, and has concluded that there are no such material interests that require the preparation of group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

#### **16. Inventories and Long Term Contracts**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

#### **17. Investment Property**

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, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the 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 the Capital Receipts Reserve.

## **18. Joint Operations**

Joint operations are arrangements where contractual agreements are in place under which the Council and one or more other parties share control. The joint venturers have rights to assets and obligations in relation to liabilities. The Council accounts only for its share of the assets, liabilities, revenue and expenses of the arrangement.

## **19. 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 on the use of specific assets.

## **The County 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 County Council as Lessor**

#### **Finance Leases**

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.



Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### **20. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the Council's status as a multifunctional, democratic organisation.

- Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, within the net cost of services.

## **21. Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental 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.

### **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 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.
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value
- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- Surplus assets – the current value measurement base 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 fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

For non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair 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 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 as follows:

- 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.

All valuations have been undertaken by or under the supervision of a fully qualified Chartered Surveyor (MRICS – Member of the Royal Institution of Chartered Surveyors). The effective date for valuations is 1 April of the financial year and assets are revalued on a five-year rolling programme. Council dwellings are reviewed annually. All valuations undertaken in 2015/16 were carried out by Council staff. In addition to this rolling programme, assets which have been subject to potentially material change as a result of transactions in any given year will be revalued as and when such changes occur.

### **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 as follows:

- 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 up to a maximum of 50 years.

- Vehicles, plant, furniture and equipment – straight line allocation over the useful life of the asset as advised by a suitably qualified officer, mainly up to a maximum of 10 years, however, some specialised items are depreciated over up to 25 years.
- Infrastructure – straight-line allocation over 40 years.
- Surplus Assets – Buildings up to 50 years, Land not depreciated

Where an item of Property, Plant and Equipment has a value greater than £5m and major components greater than 20% of the value of the asset, the components are depreciated separately at rates representative of their useful life.

Revaluation 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 and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Assets 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 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). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to 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.

## **22. Service Concession Arrangements (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 contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

For the Building Schools for the Future Schools PFI Project, the liability was written down by an initial capital contribution of £0.270m.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council. The amounts payable to the PFI operators each year are analysed into five 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 10.15% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

### **23. 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 example, 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 in the year that the Council becomes aware of the 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.

### **24. Carbon Reduction Commitment Allowances**

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in the initial year of its second phase, which ends on 31 March 2019. The Council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

## **25. 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 a note to the accounts.

## **26. 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.

## **27. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. 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 the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement 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, retirement and employee benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

## **28. Revenue Expenditure Funded from Capital under Statute (REFCUS)**

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.

## **29. Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income.

## **30. Schools**

In line with accounting standards on group accounts and consolidation, all maintained schools in the County 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. The Council has the following types of maintained schools under its control:

- Community
- Voluntary Aided
- Voluntary Controlled
- Foundation/Foundation Trust

Schools Non-Current (fixed) Assets are recognised on the Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school Governing Body own the assets or have had rights to use the assets transferred to them.

Community schools are owned by the Council and are, therefore, recognised on the Balance Sheet.

The Council's Voluntary Aided and Controlled schools are owned by the respective Diocese with no formal rights to use the assets through a licence arrangements passed to the School or Governing Bodies. As a result these schools are not recognised on the Balance Sheet.

The ownership of the Council's Foundation Schools is with the school or the schools Governing Body and as a result the school is recognised on the Council's Balance Sheet.

## **31. Collection Fund Statement**

### **Council Tax Income**

Council Tax income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. The difference between the accrued income for the year and the amount required by regulation to be credited to the General Fund will be taken to the Collection Fund Adjustment Account and included as a reconciling item in the General

Fund balance Movement in Reserves Statement. Any balances owed to or from each preceptor will be shown as a creditor or debtor in the Council's accounts.

### **Business Rates Income**

Business Rates income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. The difference between the accrued income for the year and the amount required by regulation to be credited to the General Fund will be taken to the Collection Fund Adjustment Account and included as a reconciling item in the General Fund balance Movement in Reserves Statement. Any balances owed to or from each preceptor or central government will be shown as a creditor or debtor in the Council's accounts.

## **2. 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 2016/17 Code:

- IAS 1 Presentation of Financial Statements. This standard provides guidance on the form of the financial statements. The 'Telling the Story' review of the presentation of the Local Authority financial statements as well as the December 2014 changes to IAS 1 under International Accounting Standards Board Disclosure Initiative will result in changes to the format of the accounts in 2016/17. The format of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement will change and introduce a new Expenditure and Funding Analysis.
- The adoption of the measurement requirements of the Code of Practice on Highways Network Assets in the 2016/17 Code require Highways Network Assets to be recognised as a separate class of Property, Plant and Equipment and measured at depreciated replacement cost for the first time in the 2016/17 financial statements. This will have a material impact on the Statement of Accounts in 2016/17 although there is no need to restate prior year comparators.
- Other minor changes are not expected to have a material effect on the Council's Statement of Accounts.

The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 Statement of Accounts.

### 3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, 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:

- Funding of Local Government -There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Academy and Foundation Trust Schools - three schools transferred to academy and foundation trust status in 2015/16. At the completion of a statutory process, the governing bodies of the relevant schools have agreed to change from Local Authority maintained schools. The assets are removed from the Council's Balance Sheet and a loss on disposal is recorded in the Comprehensive Income and Expenditure Account at the completion of the statutory process.
- PFI - In 2009/10, the Council signed a Private Finance Initiative contract for the provision of three sets of new school buildings; Sedgefield Community College, Shotton Hall School (now The Academy at Shotton Hall) and Shotton Hall Primary School. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the assets are recognised in the balance sheet as they are deemed to fall within the scope of the International Financial Reporting Interpretations Committee (IFRIC) 12. The total net value of land and buildings for these schools is £20.110m. Further details can be found in Note 41.
- Accounting for Schools – Balance Sheet Recognition – The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets or rights to use the assets have been transferred from another entity.

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.

Judgements have been made to determine the arrangements in place and the accounting treatment of the land and building assets. The types of schools that have been assessed are shown below:

|    | Type of School            | Nursery Schools | Primary Schools | Secondary Schools | Special Schools | Total      |
|----|---------------------------|-----------------|-----------------|-------------------|-----------------|------------|
| a) | Community                 | 12              | 142             | 13                | 9               | 176        |
| b) | Voluntary Controlled (VC) | -               | 16              | -                 | -               | 16         |
| b) | Voluntary Aided (VA)      | -               | 47              | 2                 | -               | 49         |
| c) | Foundation                | -               | -               | 2                 | -               | 2          |
| d) | Pupil Referral Unit       | -               | -               | 1                 | -               | 1          |
| d) | Endowed Parochial         | -               | 1               | -                 | -               | 1          |
|    | <b>Maintained Schools</b> | <b>12</b>       | <b>206</b>      | <b>18</b>         | <b>9</b>        | <b>245</b> |
| e) | Academies                 | -               | 12              | 14                | 1               | 27         |
|    | <b>Total</b>              | <b>12</b>       | <b>218</b>      | <b>32</b>         | <b>10</b>       | <b>272</b> |

- a) All Community schools are owned by the Council and the land and buildings used by the schools are included on the Council's Balance Sheet.
- b) Legal ownership of VC and VA school land and buildings usually rests with a charity, normally a religious body. VC schools are owned by the Diocese who has granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the Council's Balance Sheet.
- c) Foundation schools were created to give greater freedom to the Governing Body responsible for school staff appointments and who also set the admission criteria. For a Foundation school, as the school Governing Body has legal ownership of the land and buildings they have been included on the Council's Balance Sheet in line with the Council's judgement.
- d) The Pupil Referral Unit and Endowed Parochial School are owned by the Council and the land and buildings used are included on the Council's Balance Sheet.
- e) Academies are not considered to be maintained schools in the Council's control. Thus the land and building assets are not owned by the Council and not included on the Council's Balance Sheet.
- Group Accounts – The Council has financial relationships with other related companies, joint ventures and joint arrangements, details of which can be found in Note 38. There are a number of criteria by which the Council must determine whether its interest in such bodies is significant enough to be included in the Council's consolidated accounts. After consideration of these criteria, the Council has determined that the consolidation of related companies would have no material effect on the Council's financial position and therefore it is not necessary to produce Group Accounts for 2015/16.
  - Municipal Mutual Insurance – The Council considers that the orderly run down of all existing and prospective claims may result in a liability to be met from the insurance reserve. The Scheme Administrator suggests that there are possible future levies that

may be imposed on Scheme Creditors such as the Council. The Council's Insurance Adviser initially recommended that adequate provision should be held against future calls in the range of 25% to 30%. As at 31 March 2015 the Council provided for 28% (£0.774m) of the value of the total potential liability in the Scheme of Arrangement, after the levy payments totaling £0.856m were made in 2013/14 and 2014/15. However, during 2015/16 a further levy of £0.616m was paid and as a result of a further deterioration in the MMI balance sheet it was felt prudent to increase the provision to 34% of the outstanding liability net of the levy payments made to date. As the provision is not for the total amount of the potential liability and there is the possibility of future claims, the Council considers there to be a contingent liability as it has no certainty about the timing or the amount of any future liability.

- Closed Landfill Sites – the Council considers that there is likely to be a liability in respect of restoration works and after care costs for a number of closed landfill sites. A full review of the liability has been undertaken, and a final report was received in May 2014. This report recommended proposals for the management of the retained sites, and work is on-going to determine the financial liabilities associated with these proposals. The Environment Agency, the regulatory body for permitted closed landfill sites is working closely with the Council recommending priority order for works to sites. As the full value and timing of this liability remains uncertain, it has been included in the accounts as a contingent liability.

#### **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 2016 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.  | <p>The impact of a change in valuation or useful life would be to affect the carrying value of the asset in the balance sheet and the charge for depreciation or impairment in the CI&amp;E.</p> <p>These changes do not have an impact on the Council's General Fund position as the Council is not required to fund such non-cash charges from council tax receipts.</p>   |
| Property, plant and equipment | Property, plant and equipment (with the exception of infrastructure, community assets, assets under construction and small value items of vehicles, plant and equipment) are revalued on a periodic basis and tested annually for indicators of impairment. Judgements are required to make an assessment as to whether there is an indication of impairment. Advice has been provided by valuers employed by the Council. | If the actual results differ from the assumptions the value of PPE will be over or understated. This would be adjusted when the assets are next revalued.  |
| Pensions Liability            | Estimation of the net liability to pay pensions depends on a number of complex judgements such as the discount rate, future salary increases, mortality expectations, future inflation, and the expected rate of return on the Pension Fund's investments. The Pension Fund engages a firm of specialist actuaries to provide the Council with expert advice about the   | <p>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 would result in a decrease in the pension liability of £43.1m.</p> <p>In order to understand the magnitude of the possible volatility in the balance sheet position and to understand which assumptions are most important in determining the size of the liabilities, it is helpful</p> |

| Item                | Uncertainties  | Effect if actual results differ from assumptions  |
|---------------------|--|---|
|                     | assumptions to be applied.   | to understand how sensitive the results are to key assumptions. IAS19 now requires entities to disclose information about the sensitivity of the defined benefit obligation to changes in key assumptions. The results from the sensitivity analysis are disclosed in note 45 and indicate how the figures are sensitive to the assumptions used. |
| Equal Pay           | Provision has been made for the likely payments in respect of Equal Pay settlements in respect of Schools only. These are provided for in short term provisions and have been included at current prices. There are a number of potential claims in respect of individuals who were identified as potentially being eligible for an Equal Pay settlement but have not yet approached the Council. Due to the uncertainty an amount has been set aside in earmarked reserves rather than in provisions. | Payments are likely to be made within 12 months; the provision will be reviewed annually and adjusted accordingly. The residual settlements made in future years will be reviewed to ensure the adequacy of the balance set aside in earmarked reserves.  |
| Insurance Provision | The value of provisions that will be used in 2016/17 is uncertain. Based on previous experience, an amount of £3.259m has been classified as short term to reflect the likely use of this provision in 2016/17.  | If the short term provision is not used during 2016/17, the annual review of the insurance provision will ensure that an appropriate amount is included in the 2016/17 accounts.  |

| Item    | Uncertainties  | Effect if actual results differ from assumptions   |
|---------|--|--|
| Arrears | At 31 March 2016, the Authority had a balance of debtors of £80.09m. A review of significant balances suggested that an impairment of doubtful debts of 32.21% (£25.80m) 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 would require an additional £25.80m to be set aside as an allowance. |

## 5. Material Items of Income and Expense

In September 2014, Cabinet agreed to transfer the Council's housing stock of circa 18,500 dwellings to County Durham Housing Group.

The transfer of the Housing Stock to the County Durham Housing Group Limited and its component housing management organisations, Dale and Valley Homes Limited, Durham City Homes Limited and East Durham Homes Limited took place on 13 April 2015, a date agreed with the Department of Communities and Local Government.

The transfer price for the dwellings and associated assets is largely determined by a prescribed formula set by Government and reflects the current value of the future income and expenditure streams of the assets over the next 30 years and is known as the Tenanted Market Value (TMV). The transfer price agreed with CDHG was £114.4m and this was used to repay part of the outstanding HRA debt in 2015/16.

In 2015/16 the Council received an Overhanging Debt Grant of £207.035m from the government to repay its remaining housing attributable debt of £129.6m and premia of £77.435m associated with the premature repayment. These figures are shown in the Comprehensive Income and Expenditure Statement in Taxation and Non Specific Grant Income and Other Operating Expenditure respectively and included in Notes 11 and 9.

During 2011/12, Consett Community Sports College and Moorside Community College combined and transferred to Academy status, becoming Consett Academy. No loss on disposal of the school buildings was recorded at the time, as new buildings were being constructed by the Council, which were recognised as assets under construction on the Council's balance sheet. The old school buildings remain the property of the Council, and were leased on a short-term basis to the Academy until completion of the new buildings in



2015/16. On completion, the new buildings transferred to the Academy and were written out of the Council's balance sheet, resulting in a loss on disposal of £28.836m in 2015/16.

## **6. Events After the Balance Sheet Date**

The Statement of Accounts was authorised for issue by the Interim Corporate Director Resources on 30 June 2016. 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 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### **Academy Schools**

Four local authority schools are due to convert to Academy status during 2016/17 which was a non-adjusting event in 2015/16. This change in status will lead to the removal of this school from the Balance Sheet in 2016/17 and the loss on disposal will be charged to the Comprehensive Income and Expenditure Statement below the Net Cost of Services. The estimated loss on disposal is £20.494m.

## **7. 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.

The presentation of this note has been amended to reflect new Code requirements to aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics. The 2014/15 comparator has been restated accordingly. There is no impact on the Total Adjustments line.

2015/16:

|  | Usable Reserves                 |                                    |                                     |                                  |                                     |   |
|--|---------------------------------|------------------------------------|-------------------------------------|----------------------------------|-------------------------------------|---|
|  | General Fund<br>Balance<br>£000 | Housing Revenue<br>Account<br>£000 | Capital Receipts<br>Reserve<br>£000 | Major Repairs<br>Reserve<br>£000 | Capital Grants<br>Unapplied<br>£000 | Movement in<br>Unusable<br>Reserves<br>£000 |
| <b>Adjustments to Revenue Resources</b>  |                                 |                                    |                                     |                                  |                                     |   |
| 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: |                                 |                                    |                                     |                                  |                                     |   |
| • Pensions Costs (transferred to (or from) the Pensions Reserve)   | -22,075                         | -                                  | -                                   | -                                | -                                   | 22,075                                      |
| • Financial Instruments (transferred to the Financial Instruments Adjustment Account)  | 79                              | -                                  | -                                   | -                                | -                                   | -79   |
| • Council Tax and NDR (transfers to or from Collection Fund)   | 1,220                           | -                                  | -                                   | -                                | -                                   | -1,220                                      |
| • Holiday pay (transferred to the Accumulated Absences Reserve)  | 1,802                           | -                                  | -                                   | -                                | -                                   | -1,802                                      |
| • Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital items (these items are charged to the Capital Adjustment Account):                      |                                 |                                    |                                     |                                  |                                     |   |
| ◦ Depreciation and amortisation of non-current assets  | -55,755                         | -                                  | -                                   | -                                | -                                   | 55,755                                      |
| ◦ Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties  | -17,066                         | -                                  | -                                   | -                                | -                                   | 17,066                                      |
| ◦ Amounts of non-current assets written off on disposal or sale  | -55,268                         | -130,534                           | -                                   | -                                | -                                   | 185,802                                     |
| ◦ Revenue expenditure funded from capital under statute  | -29,868                         | -                                  | -                                   | -                                | -                                   | 29,868                                      |
| ◦ Capital grants and contributions credited to the CI&E Statement  | 52,087                          | 129,600                            | -                                   | -                                | -                                   | -181,687                                    |
| <b>Total Adjustments to Revenue Resources</b>  | <b>-124,844</b>                 | <b>-934</b>                        | <b>-</b>                            | <b>-</b>                         | <b>-</b>                            | <b>125,778</b>                              |
| <b>Adjustments between Revenue and Capital Resources</b>   |                                 |                                    |                                     |                                  |                                     |   |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve   | 12,962                          | 115,035                            | -124,028                            | -                                | -                                   | -3,969                                      |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)  | -34                             | -                                  | 34                                  | -                                | -                                   | -   |
| Posting of HRA resources from revenue to the Major Repairs Reserve   | -                               | -                                  | -                                   | -                                | -                                   | -   |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)   | 16,569                          | -                                  | -                                   | -                                | -                                   | -16,569                                     |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)  | 23,770                          | -                                  | -                                   | -                                | -                                   | -23,770                                     |
| <b>Total Adjustments between Revenue and Capital</b>   | <b>53,267</b>                   | <b>115,035</b>                     | <b>-123,994</b>                     | <b>-</b>                         | <b>-</b>                            | <b>-44,308</b>                              |
| <b>Adjustments to Capital Resources</b>  |                                 |                                    |                                     |                                  |                                     |   |
| Use of the Capital Receipts Reserve to finance capital expenditure   | -                               | -                                  | 124,584                             | -                                | -                                   | -124,584                                    |
| Use of the Major Repairs Reserve to finance capital expenditure  | -                               | -                                  | -                                   | -                                | -                                   | -   |
| Application of capital grants unapplied to finance capital expenditure   | -                               | -                                  | -                                   | -                                | 85                                  | -85   |
| Cash payments in relation to deferred capital receipts   | -                               | -                                  | -733                                | -                                | -                                   | 733   |
| <b>Total Adjustments to Capital Resources</b>  | <b>-</b>                        | <b>-</b>                           | <b>123,851</b>                      | <b>-</b>                         | <b>85</b>                           | <b>-123,936</b>                             |
| <b>Total Adjustments</b>   | <b>-71,577</b>                  | <b>114,101</b>                     | <b>-143</b>                         | <b>-</b>                         | <b>85</b>                           | <b>-42,466</b>                              |

2014/15 (restated):

|  | Usable Reserves                 |                                    |                                     |                                  |                                     | Movement in<br>Unusable<br>Reserves<br>£000 |
|--|---------------------------------|------------------------------------|-------------------------------------|----------------------------------|-------------------------------------|---|
|  | General Fund<br>Balance<br>£000 | Housing Revenue<br>Account<br>£000 | Capital Receipts<br>Reserve<br>£000 | Major Repairs<br>Reserve<br>£000 | Capital Grants<br>Unapplied<br>£000 |   |
| <b>Adjustments to Revenue Resources</b>  |                                 |                                    |                                     |                                  |                                     |   |
| 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: |                                 |                                    |                                     |                                  |                                     |   |
| • Pensions Costs (transferred to (or from) the Pensions Reserve)   | -19,671                         | 480                                | -                                   | -                                | -                                   | 19,191                                      |
| • Financial Instruments (transferred to the Financial Instruments Adjustment Account)  | 79                              | -                                  | -                                   | -                                | -                                   | -79   |
| • Council Tax and NDR (transfers to or from Collection Fund)   | 2,759                           | -                                  | -                                   | -                                | -                                   | -2,759                                      |
| • Holiday pay (transferred to the Accumulated Absences Reserve)  | -2,220                          | -1                                 | -                                   | -                                | -                                   | 2,221                                       |
| • Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital items (these items are charged to the Capital Adjustment Account):                      |                                 |                                    |                                     |                                  |                                     |   |
| ◦ Depreciation and amortisation of non-current assets  | -51,930                         | -7,500                             | -                                   | -                                | -                                   | 59,430                                      |
| ◦ Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties  | 7,223                           | -366,231                           | -                                   | -                                | -                                   | 359,008                                     |
| ◦ Amounts of non-current assets written off on disposal or sale  | -8,037                          | -2,239                             | -                                   | -                                | -                                   | 10,276                                      |
| ◦ Revenue expenditure funded from capital under statute  | -16,873                         | -62                                | -                                   | -                                | -                                   | 16,935                                      |
| ◦ Capital grants and contributions credited to the CI&E Statement  | 56,594                          | 18,682                             | -                                   | -                                | -                                   | -75,276                                     |
| <b>Total Adjustments to Revenue Resources</b>  | <b>-32,076</b>                  | <b>-356,871</b>                    | <b>-</b>                            | <b>-</b>                         | <b>-</b>                            | <b>388,947</b>                              |
| <b>Adjustments between Revenue and Capital Resources</b>   |                                 |                                    |                                     |                                  |                                     |   |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve   | 10,619                          | 3,314                              | -13,208                             | -                                | -                                   | -725  |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)  | -1,414                          | -                                  | 1,414                               | -                                | -                                   | -   |
| Posting of HRA resources from revenue to the Major Repairs Reserve   | -                               | 7,468                              | -                                   | -7,468                           | -                                   | -   |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)   | 15,730                          | -                                  | -                                   | -                                | -                                   | -15,730                                     |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)  | 17,763                          | 3,818                              | -                                   | -                                | -                                   | -21,581                                     |
| <b>Total Adjustments between Revenue and Capital Adjustments to Capital Resources</b>  | <b>42,698</b>                   | <b>14,600</b>                      | <b>-11,794</b>                      | <b>-7,468</b>                    | <b>-</b>                            | <b>-38,036</b>                              |
| Use of the Capital Receipts Reserve to finance capital expenditure   | -                               | -                                  | 12,976                              | -                                | -                                   | -12,976                                     |
| Use of the Major Repairs Reserve to finance capital expenditure  | -                               | -                                  | -                                   | 7,468                            | -                                   | -7,468                                      |
| Application of capital grants unapplied to finance capital expenditure   | -                               | -                                  | -                                   | -                                | 113                                 | -113  |
| Cash payments in relation to deferred capital receipts   | -                               | -                                  | -1,182                              | -                                | -                                   | 1,182                                       |
| <b>Total Adjustments to Capital Resources</b>  | <b>-</b>                        | <b>-</b>                           | <b>11,794</b>                       | <b>7,468</b>                     | <b>113</b>                          | <b>-19,375</b>                              |
| <b>Total Adjustments</b>   | <b>10,622</b>                   | <b>-342,271</b>                    | <b>-</b>                            | <b>-</b>                         | <b>113</b>                          | <b>331,536</b>                              |

## 8. 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 from earmarked reserves to meet General Fund and HRA expenditure.

|   | Balance at<br>1 April 2014<br>£000 | Transfers out<br>2014-15<br>£000 | Transfers in<br>2014-15<br>£000 | Balance at<br>31 March 2015<br>£000 | Transfers out<br>2015-16<br>£000 | Transfers in<br>2015-16<br>£000 | Balance at<br>31 March 2016<br>£000 |
|---|------------------------------------|----------------------------------|---------------------------------|-------------------------------------|----------------------------------|---------------------------------|-------------------------------------|
| <b>General Fund:</b>                                  |                                    |                                  |                                 |                                     |                                  |                                 |                                     |
| Balances held by schools under a scheme of delegation | 24,684                             | -438                             | -                               | 24,246                              | -163                             | -                               | 24,083                              |
| AAP / Members Reserve                                 | 3,277                              | -5                               | 427                             | 3,699                               | -498                             | 406                             | 3,607                               |
| AAP Reserve - Neighbourhoods                          | 38                                 | -                                | 2                               | 40                                  | -                                | 8                               | 48                                  |
| Assistant Chief Executive - Grant Reserve             | 230                                | -39                              | 3                               | 194                                 | -                                | 1,218                           | 1,412                               |
| Assistant Chief Executive - Operational Reserve       | 132                                | -8                               | -                               | 124                                 | -8                               | 631                             | 747                                 |
| Aycliffe Young Peoples Centre Reserve                 | 1,387                              | -185                             | -                               | 1,202                               | -998                             | -                               | 204                                 |
| Budget Support Reserve                                | -                                  | -                                | -                               | -                                   | -                                | 30,000                          | 30,000                              |
| Business Growth Fund Reserve                          | -                                  | -                                | 913                             | 913                                 | -97                              | -                               | 816                                 |
| Cabinet Reserve                                       | 220                                | -220                             | -                               | -                                   | -                                | -                               | -                                   |
| Capital Expenditure Reserve                           | 2,797                              | -                                | 5                               | 2,802                               | -3,802                           | 1,000                           | -                                   |
| Cash Limit Reserve                                    | 22,384                             | -7,481                           | 7,462                           | 22,365                              | -15,107                          | 15,044                          | 22,302                              |
| Community Safety Reserve                              | 6                                  | -6                               | -                               | -                                   | -                                | -                               | -                                   |
| Continuing Professional Development Reserve           | 993                                | -                                | 42                              | 1,035                               | -                                | 167                             | 1,202                               |
| Corporate Reserve                                     | 2,219                              | -1,604                           | 369                             | 984                                 | -59                              | -                               | 925                                 |
| Customer Services Reserve                             | 387                                | -14                              | -                               | 373                                 | -140                             | -                               | 233                                 |
| Dedicated Schools Grant and Education Reserve         | 7,354                              | -                                | 5,452                           | 12,806                              | -352                             | 1,978                           | 14,432                              |
| Direct Services Reserve                               | 3,675                              | -1,242                           | 610                             | 3,043                               | -725                             | 673                             | 2,991                               |
| DWP Grant Reserve                                     | 699                                | -50                              | 589                             | 1,238                               | -56                              | 205                             | 1,387                               |
| Economic Development Reserve                          | 900                                | -194                             | 339                             | 1,045                               | -77                              | 166                             | 1,134                               |
| Elections Reserve                                     | 1,036                              | -136                             | 136                             | 1,036                               | -26                              | -                               | 1,010                               |
| Employability and Training Reserve                    | 644                                | -186                             | -                               | 458                                 | -229                             | 1,478                           | 1,707                               |
| Environmental Health and Consumer Protection Reserve  | 516                                | -97                              | 581                             | 1,000                               | -86                              | 33                              | 947                                 |
| Equal Pay Reserve                                     | 17,405                             | -3,683                           | 394                             | 14,116                              | -4,798                           | 210                             | 9,528                               |
| Funding and Programmes Management Reserve             | 132                                | -                                | 8                               | 140                                 | -                                | 14                              | 154                                 |
| Health Promotion Access Catalogue (HPAC)              | -                                  | -                                | 259                             | 259                                 | -259                             | -                               | -                                   |
| Housing Benefit Subsidy Reserve                       | 2,198                              | -1,453                           | -                               | 745                                 | -245                             | -                               | 500                                 |
| Housing Solutions Reserve                             | 1,079                              | -228                             | 16                              | 867                                 | -19                              | 295                             | 1,143                               |
| Housing Stock Transfer Reserve                        | -                                  | -                                | -                               | -                                   | -                                | 1,000                           | 1,000                               |
| Human Resources Reserve                               | -                                  | -                                | 65                              | 65                                  | -                                | -                               | 65                                  |
| Insurance Reserve                                     | 13,058                             | -75                              | 2,620                           | 15,603                              | -7,000                           | 1,626                           | 10,229                              |
| Land Search Fees Reserve                              | 1,000                              | -                                | -                               | 1,000                               | -556                             | -                               | 444                                 |
| Legal Reserves  | 200                                | -                                | -                               | 200                                 | -                                | 154                             | 354                                 |
| LSVT Reserve  | 100                                | -100                             | -                               | -                                   | -                                | -                               | -                                   |
| MTFP Redundancy and Early Retirement Reserve          | 16,255                             | -6,204                           | 830                             | 10,881                              | -7,023                           | 10,000                          | 13,858                              |
| North Pennines Partnership Reserve                    | 638                                | -309                             | -                               | 329                                 | -124                             | -                               | 205                                 |
| Office Accommodation Reserve                          | 1,000                              | -                                | 7                               | 1,007                               | -310                             | -                               | 697                                 |
| Office Accommodation Capital Reserve                  | -                                  | -                                | 8,000                           | 8,000                               | -                                | 34,481                          | 42,481                              |
| Other Childrens Services Reserve                      | -                                  | -                                | -                               | -                                   | -                                | 1,010                           | 1,010                               |
| Pension Deficit Reserve                               | -                                  | -                                | -                               | -                                   | -                                | 10,000                          | 10,000                              |
| Performance Reward Grant Reserve                      | 1,308                              | -264                             | -                               | 1,044                               | -358                             | -                               | 686                                 |
| Planned Delivery Programme (PDP) Reserve              | -                                  | -                                | 20,000                          | 20,000                              | -20,000                          | -                               | -                                   |
| Planning Reserve                                      | 1,173                              | -                                | 250                             | 1,423                               | -174                             | 80                              | 1,329                               |
| Public Health Reserve                                 | 4,992                              | -44                              | 35                              | 4,983                               | -3,734                           | 3,705                           | 4,954                               |
| Regeneration Reserve                                  | 1,689                              | -713                             | 778                             | 1,754                               | -162                             | 740                             | 2,332                               |
| Restructure Reserve                                   | 729                                | -66                              | -                               | 663                                 | -475                             | -                               | 188                                 |
| Revenue and Benefit Reserve                           | -                                  | -                                | -                               | -                                   | -                                | 200                             | 200                                 |
| School Condition Survey Reserve                       | -                                  | -                                | -                               | -                                   | -                                | 1,409                           | 1,409                               |
| Single Fraud Incentive Scheme Reserve                 | -                                  | -                                | -                               | -                                   | -                                | 257                             | 257                                 |
| Social Care Reserve                                   | 19,365                             | -4,561                           | 22,132                          | 36,936                              | -25,482                          | 1,910                           | 13,364                              |
| Special Projects Reserve                              | 60                                 | -23                              | -                               | 37                                  | -37                              | -                               | -                                   |
| Sport and Leisure Reserve                             | 1,963                              | -387                             | 1,618                           | 3,194                               | -753                             | 673                             | 3,114                               |
| Strategic Waste Reserve                               | 425                                | -177                             | 1,548                           | 1,796                               | -1,660                           | -                               | 136                                 |
| System Development Reserve                            | 2,021                              | -451                             | 141                             | 1,711                               | -245                             | 1,134                           | 2,600                               |
| Tackling Troubled Families Reserve                    | 1,558                              | -613                             | 1,082                           | 2,027                               | -330                             | -                               | 1,697                               |
| Technical Services Reserve                            | 1,619                              | -300                             | 1,603                           | 2,922                               | -443                             | 1,873                           | 4,352                               |
| Transformation Reserve                                | -                                  | -                                | 1,483                           | 1,483                               | -                                | 1,441                           | 2,924                               |
| Transport Asset Management Programme Reserve          | 318                                | -                                | -                               | 318                                 | -158                             | -                               | 160                                 |
| Transport Reserve                                     | 329                                | -42                              | -                               | 287                                 | -36                              | -                               | 251                                 |
| Welfare Reserve                                       | 1,760                              | -94                              | 498                             | 2,164                               | -1,477                           | 148                             | 835                                 |
| <b>Total</b>  | <b>165,952</b>                     | <b>-31,692</b>                   | <b>80,297</b>                   | <b>214,557</b>                      | <b>-98,281</b>                   | <b>125,367</b>                  | <b>241,643</b>                      |

The significant earmarked reserves at 31 March 2016, together with a brief explanation of their purpose, were as follows:

**Schools' Revenue Balances**

Surplus or deficit balances of locally managed schools, which are committed to be spent on the education service. The net surplus at 31 March 2016 comprised individual school balances totalling £24.083m, net of loans outstanding of £0.191m.

**AAP / Members Reserve**

To ensure the projects can be funded in 2016/17 where an agreed spending plan exists.

**Budget Support Reserve**

To enable the Council to protect frontline services for a period and ensure that the Council is able to plan effectively and consult fully on future years' savings plans.

**Capital Expenditure Reserve**

To provide resources to fund capital expenditure items in 2016/17 and beyond.

**Cash Limit Reserve**

To carry forward under and overspends to meet future service demands.

**Dedicated Schools Grant and Education Reserve**

To carry forward the unspent, central element of Dedicated Schools Grant funding for multi-agency operations, and to provide education business links between schools and local businesses.

**Direct Services Reserve**

To hold contingency sums for issues such as building services defects liabilities, building repairs and maintenance dilapidations, flooding and street cleansing.

**Equal Pay Reserve**

To provide resources to meet the cost of additional employee costs as a result of Equal Pay and Job Evaluation.

**Insurance Reserve**

To provide resources to cover selected risks. The major risks relate to fire, public liability and employer's liability claims below the policy excess levels.

**MTFP Redundancy and Early Retirement Reserve**

To provide for the costs of approved redundancy and early retirements.

**Office Accommodation Capital Reserve**

To provide a resource for the review of Office Accommodation across the County.

**Pension Deficit Reserve**

To provide a resource to reduce future liabilities and MTFP pressures associated with pension deficit payments.

**Public Health Reserve**

Mainly represents sums set aside to meet future costs associated with the decommissioning and recommissioning of various Public Health contracts.

**Social Care Reserve**

To fund expected demographic pressures in future years and for projects jointly agreed by Childrens and Adults Services and Health and the Primary Care Trust.

**Sport and Leisure Reserve**

To provide resources to meet the costs associated with various Sport and Leisure activities in 2016/17 and beyond.

**Technical Services Reserve**

To provide resources to meet the costs associated with Winter Maintenance in order to ensure funds for are available for increased expenditure in the event of harsh winter, Drainage Inspections and other Highways related issues.

**Transformation Reserve**

To provide a resource to support a major transformation of the Children's Services delivery model on the provision of social work services and early help services to improve the service.

**9. Other Operating Expenditure**

| 2014-15<br>£000 |  | 2015-16<br>£000 |
|-----------------|--|-----------------|
| 10,450          | Parish council precepts                                  | 10,921          |
| 472             | Levies   | 16,555          |
| 1,414           | Payments to the Government Housing Capital Receipts Pool | 34              |
| -3,656          | Gains/losses on the disposal of non-current assets       | 57,805          |
| 8,680           | <b>Total</b>   | 85,315          |

**10. Financing and Investment Income and Expenditure**

| 2014-15<br>£000 |   | 2015-16<br>£000 |
|-----------------|---|-----------------|
| 24,449          | Interest payable and similar charges                            | 15,110          |
| -               | - Premium payable on repayment of debt (Housing Stock Transfer) | 77,435          |
| 33,160          | Pensions net interest on the net defined benefit liability      | 28,920          |
| -2,395          | Interest receivable and similar income                          | -4,894          |
| 270             | Impairment of Financial Investments                             | -               |
| -267            | Movement in fair value of investment properties                 | -406            |
| -10,692         | Other investment income   | -5,929          |
| 44,525          | <b>Total</b>  | 110,236         |

**11. Taxation and Non-Specific Grant Income**

| 2014-15<br>£000 |   | 2015-16<br>£000 |
|-----------------|---|-----------------|
| -179,705        | Council tax income *                                    | -190,752        |
| -54,725         | Non domestic rates                                      | -50,836         |
| -217,149        | Non-ringfenced government grants                        | -180,607        |
| -65,602         | Capital grants and contributions                        | -36,432         |
| -               | - Government grant in respect of Housing Stock Transfer | -207,035        |
| -517,181        | <b>Total</b>  | -665,662        |

\* Council tax income includes Council Tax, Collection Fund Surplus and Parish Precepts

## 12. Property, Plant and Equipment

Movement on Balance 2015/16:

|  | Operational                  |                             |   |                                  |                             |                           | Non-Operational                      |                | Total<br>£000 |
|--|------------------------------|-----------------------------|---|----------------------------------|-----------------------------|---------------------------|--------------------------------------|----------------|---------------|
|  | Council<br>Dwellings<br>£000 | Land &<br>Buildings<br>£000 | Vehicles, Plant,<br>Furniture & Equipment<br>£000 | Infrastructure<br>Assets<br>£000 | Community<br>Assets<br>£000 | Surplus<br>Assets<br>£000 | Assets Under<br>Construction<br>£000 |                |               |
| <b>Cost or valuation</b>                               |                              |                             |   |                                  |                             |                           |                                      |                |               |
| At 1 April 2015  | 114,353                      | 1,121,819                   | 125,990   | 488,709                          | 2,864                       | 81,377                    | 29,880                               | 1,964,991      |               |
| Additions  | -                            | 32,852                      | 12,510  | 30,885                           | 2,176                       | 1                         | 10,042                               | 88,466         |               |
| Revaluation<br>increases/(decreases)                   | -                            | -4,738                      | 7   | -                                | -                           | -3,952                    | -                                    | -8,682         |               |
| Derecognition - disposals                              | -114,282                     | -73,077                     | -5,739  | -                                | -                           | -7,197                    | -                                    | -200,294       |               |
| Assets reclassified (to)/from<br>Held for Sale         | -                            | -                           | -   | -                                | -                           | -8,079                    | -                                    | -8,079         |               |
| Other reclassifications                                | -71                          | 47,195                      | -   | -                                | 2                           | -8,118                    | -38,655                              | 353            |               |
| Other movements in cost or<br>valuation                | -                            | -                           | -   | -27                              | -                           | -                         | -                                    | -27            |               |
| <b>At 31 March 2016</b>                                | -                            | 1,124,050                   | 132,769   | 519,567                          | 5,042                       | 54,033                    | 1,267                                | 1,836,727      |               |
| <b>Accumulated Depreciation</b>                        |                              |                             |   |                                  |                             |                           |                                      |                |               |
| At 1 April 2015  | -                            | -19,223                     | -89,336   | -109,323                         | -88                         | -601                      | -                                    | -218,571       |               |
| Depreciation charge                                    | -                            | -31,108                     | -10,849   | -12,650                          | -                           | -302                      | -                                    | -54,908        |               |
| Depreciation written out on<br>revaluation             | -                            | 8,368                       | -   | -                                | -                           | 423                       | -                                    | 8,790          |               |
| Impairment losses/(reversals)                          | -                            | -13,405                     | -   | -                                | -                           | -34                       | -                                    | -13,439        |               |
| Derecognition - disposals                              | -                            | 14,669                      | 5,383   | -                                | -                           | 208                       | -                                    | 20,260         |               |
| Other reclassifications                                | -                            | -70                         | -   | -                                | -                           | 86                        | -                                    | 16             |               |
| Other movements in cost or<br>valuation                | -                            | -                           | -   | -                                | -                           | 70                        | -                                    | 70             |               |
| <b>At 31 March 2016</b>                                | -                            | -40,769                     | -94,802   | -121,973                         | -88                         | -150                      | -                                    | -257,782       |               |
| <b>Net Book Value</b>                                  |                              |                             |   |                                  |                             |                           |                                      |                |               |
| At 31 March 2016                                       | -                            | 1,083,282                   | 37,967  | 397,594                          | 4,953                       | 53,883                    | 1,267                                | 1,578,945      |               |
| At 31 March 2015                                       | 114,353                      | 1,102,596                   | 36,654  | 379,386                          | 2,775                       | 80,776                    | 29,880                               | 1,746,420      |               |
| The Revaluations / Impairments<br>above:               |                              |                             |   |                                  |                             |                           |                                      |                |               |
| Revaluation  | -                            | -4,738                      | 7   | -                                | -                           | -3,952                    | -                                    | -8,682         |               |
| Depreciation written out                               | -                            | 8,368                       | -   | -                                | -                           | 423                       | -                                    | 8,790          |               |
| Impairment losses/(reversals)                          | -                            | -13,405                     | -   | -                                | -                           | -34                       | -                                    | -13,439        |               |
|  | -                            | <b>-9,775</b>               | <b>7</b>  | -                                | -                           | <b>-3,564</b>             | -                                    | <b>-13,331</b> |               |
| Are recognised as follows:                             |                              |                             |   |                                  |                             |                           |                                      |                |               |
| In the Revaluation Reserve                             | -                            | -6,468                      | -   | -31                              | -                           | 2,747                     | -                                    | -3,752         |               |
| In the Surplus/Deficit on the<br>Provision of Services | -                            | -3,307                      | 7   | 31                               | -                           | -6,311                    | -                                    | -9,579         |               |
|  | -                            | <b>-9,775</b>               | <b>7</b>  | -                                | -                           | <b>-3,564</b>             | -                                    | <b>-13,331</b> |               |

## Comparative Movements in 2014/15:

|  | Operational                  |                             |   |                                  |                             |                           | Non-Operational                      |                  | Total<br>£000 |
|--|------------------------------|-----------------------------|---|----------------------------------|-----------------------------|---------------------------|--------------------------------------|------------------|---------------|
|  | Council<br>Dwellings<br>£000 | Land &<br>Buildings<br>£000 | Vehicles, Plant,<br>Furniture & Equipment<br>£000 | Infrastructure<br>Assets<br>£000 | Community<br>Assets<br>£000 | Surplus<br>Assets<br>£000 | Assets Under<br>Construction<br>£000 |                  |               |
| <b>Cost or valuation</b>                               |                              |                             |   |                                  |                             |                           |                                      |                  |               |
| At 1 April 2014  | 455,286                      | 997,382                     | 127,148   | 455,141                          | 2,660                       | 64,385                    | 12,418                               | 2,114,419        |               |
| Additions  | 42,757                       | 36,966                      | 7,654   | 33,689                           | 162                         | 751                       | 20,703                               | 142,682          |               |
| Revaluation<br>increases/(decreases)                   | -381,584                     | 127,038                     | -   | -48                              | 16                          | -4,921                    | -                                    | -259,497         |               |
| Derecognition - disposals                              | -2,167                       | -13,634                     | -8,685  | -                                | -1                          | -4,026                    | -                                    | -28,512          |               |
| Derecognition - other                                  | -                            | -                           | -   | -                                | -                           | -                         | -                                    | -                |               |
| Assets reclassified (to)/from<br>Held for Sale         | -                            | -2,973                      | -   | -                                | -                           | -260                      | -                                    | -3,234           |               |
| Other reclassifications                                | 62                           | -22,291                     | -128  | -                                | 26                          | 25,449                    | -3,241                               | -123             |               |
| Other movements in cost or<br>valuation                | -2                           | -670                        | -   | -73                              | -                           | -                         | -                                    | -744             |               |
| <b>At 31 March 2015</b>                                | <b>114,353</b>               | <b>1,121,819</b>            | <b>125,990</b>                                    | <b>488,709</b>                   | <b>2,864</b>                | <b>81,377</b>             | <b>29,880</b>                        | <b>1,964,991</b> |               |
| <b>Accumulated Depreciation</b>                        |                              |                             |   |                                  |                             |                           |                                      |                  |               |
| At 1 April 2014  | -6,657                       | -51,092                     | -84,835   | -97,482                          | -88                         | -2,426                    | -                                    | -242,580         |               |
| Depreciation charge                                    | -6,799                       | -27,522                     | -11,684   | -11,844                          | -                           | -439                      | -                                    | -58,288          |               |
| Depreciation written out on<br>revaluation             | 13,441                       | 51,518                      | -   | -                                | -                           | 2,978                     | -                                    | 67,938           |               |
| Impairment losses/(reversals)                          | -114                         | -4,371                      | -   | -                                | -                           | -358                      | -                                    | -4,842           |               |
| Derecognition - disposals                              | 132                          | 11,049                      | 7,176   | -                                | -                           | 835                       | -                                    | 19,192           |               |
| Derecognition - other                                  | -                            | -                           | -   | -                                | -                           | -                         | -                                    | -                |               |
| Assets reclassified (to)/from<br>Held for Sale         | -                            | -                           | -   | -                                | -                           | -                         | -                                    | -                |               |
| Assets reclassified (to)/from<br>Held for Sale         | -                            | -                           | -   | -                                | -                           | -                         | -                                    | -                |               |
| Assets reclassified (to)/from<br>Intangible            | -                            | -                           | -   | -                                | -                           | -                         | -                                    | -                |               |
| Other reclassifications                                | -4                           | 1,194                       | 6   | -                                | -                           | -1,191                    | -                                    | 6                |               |
| Other movements in cost or<br>valuation                | -                            | -                           | -   | 3                                | -                           | -                         | -                                    | 3                |               |
| <b>At 31 March 2015</b>                                | <b>0</b>                     | <b>-19,223</b>              | <b>-89,336</b>                                    | <b>-109,323</b>                  | <b>-88</b>                  | <b>-601</b>               | <b>-</b>                             | <b>-218,571</b>  |               |
| <b>Net Book Value</b>                                  |                              |                             |   |                                  |                             |                           |                                      |                  |               |
| At 31 March 2015                                       | 114,353                      | 1,102,596                   | 36,654  | 379,386                          | 2,775                       | 80,776                    | 29,880                               | 1,746,420        |               |
| At 31 March 2014                                       | 448,629                      | 946,290                     | 42,313  | 357,659                          | 2,572                       | 61,959                    | 12,418                               | 1,871,839        |               |
| The Revaluations / Impairments                         |                              |                             |   |                                  |                             |                           |                                      |                  |               |
| Revaluation<br>increases/(decreases)                   | -381,584                     | 127,038                     | -   | -48                              | 16                          | -4,921                    | -                                    | -259,497         |               |
| Depreciation written out                               | 13,441                       | 51,518                      | -   | -                                | -                           | 2,978                     | -                                    | 67,938           |               |
| Impairment losses/(reversals)                          | -114                         | -4,371                      | -   | -                                | -                           | -358                      | -                                    | -4,842           |               |
|  | <b>-368,256</b>              | <b>174,186</b>              | <b>-</b>  | <b>-48</b>                       | <b>16</b>                   | <b>-2,300</b>             | <b>-</b>                             | <b>-196,401</b>  |               |
| Are recognised as follows:                             |                              |                             |   |                                  |                             |                           |                                      |                  |               |
| In the Revaluation Reserve                             | -2,024                       | 161,112                     | -   | -                                | 16                          | 3,640                     | -                                    | 162,743          |               |
| In the Surplus/Deficit on the<br>Provision of Services | -366,231                     | 13,074                      | -   | -48                              | -                           | -5,940                    | -                                    | -359,145         |               |
|  | <b>-368,256</b>              | <b>174,186</b>              | <b>-</b>  | <b>-48</b>                       | <b>16</b>                   | <b>-2,300</b>             | <b>-</b>                             | <b>-196,401</b>  |               |



## Depreciation

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

- Council Dwellings – up to 50 years
- Land and Buildings – Buildings up to 50 years, Land not depreciated
- Vehicles, Plant, Furniture and Equipment – mainly up to 10 years, however some specialised items are depreciated over up to 25 years
- Infrastructure – 40 years
- Surplus Assets – Buildings up to 50 years, Land not depreciated

## Capital Commitments

At 31 March 2016 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years budgeted to cost £20.224m. Similar commitments at 31 March 2015 were £35.651m. The commitments are:

|                                   |         |
|-----------------------------------|---------|
| • Building Schools for the Future | £2.964m |
| • School Projects                 | £2.306m |
| • Wharton Park                    | £0.805m |
| • Thornley Waste Transfer Station | £5.078m |
| • Digital Durham                  | £7.703m |
| • Forrest Park                    | £1.234m |
| • Villa Real                      | £0.134m |

### 13. Heritage Assets

Reconciliation of the carrying value of Heritage Assets held by the Council.

|  | Museum<br>Collection and<br>Artefacts<br>£000 | Artwork, Public<br>Art and<br>Sculptures<br>£000 | Monuments,<br>Statues and<br>Historic Buildings<br>£000 | Civic Regalia and<br>Silverware<br>£000 | Total<br>Assets<br>£000 |
|--|---|--|---|---|-------------------------|
| <b>Cost or valuation</b>   |   |  |   |   |                         |
| At 1 April 2014  | 9,494   | 987  | 4,501   | 654                                     | 15,636                  |
| Additions  | -   | -  | -   | -                                       | -                       |
| Disposals  | -   | -  | -   | -                                       | -                       |
| Revaluations   | -433  | 37   | 27  | 192                                     | -177                    |
| Impairment Losses/(reversals) recognised in the<br>Revaluation Reserve                         | -   | -  | -   | -                                       | -                       |
| Impairment Losses/(reversals) recognised in Surplus<br>or Deficit on the Provision of Services | -   | -  | -   | -                                       | -                       |
| Depreciation   | -   | -  | -   | -                                       | -                       |
| Assets reclassified (to)/from Property Plant and<br>Equipment                                  | -   | -  | -   | -                                       | -                       |
| <b>At 31 March 2015</b>  | <b>9,061</b>                                  | <b>1,024</b>                                     | <b>4,528</b>  | <b>846</b>                              | <b>15,459</b>           |
| <b>Cost or valuation</b>   |   |  |   |   |                         |
| At 1 April 2015  | 9,061   | 1,024  | 4,528   | 846                                     | 15,459                  |
| Additions  | -   | -  | -   | -                                       | -                       |
| Disposals  | -   | -  | -   | -                                       | -                       |
| Revaluations   | -   | -1   | 1   | -                                       | -                       |
| Impairment Losses/(reversals) recognised in the<br>Revaluation Reserve                         | -   | -  | -   | -                                       | -                       |
| Impairment Losses/(reversals) recognised in Surplus<br>or Deficit on the Provision of Services | -   | -  | -   | -                                       | -                       |
| Depreciation   | -   | -  | -   | -                                       | -                       |
| Assets reclassified (to)/from Property Plant and<br>Equipment                                  | -   | -  | -15   | -                                       | -15                     |
| Other reclassifications  | -108  | -204   | -   | 312                                     | -                       |
| <b>At 31 March 2016</b>  | <b>8,953</b>                                  | <b>819</b>                                       | <b>4,514</b>  | <b>1,158</b>                            | <b>15,444</b>           |

#### Museum Collections and Artefacts

Where museum exhibits and artefacts are recognised on the balance sheet they are reported at insurance value, or at the amount at which they have been valued by professional valuers.

#### Artwork, including Public Art and Sculptures

Where items of artwork are recognised on the balance sheet they are reported at insurance value, others at cost and some at the amount at which they have been valued by professional valuers.

#### Monuments, Statues and Historic Buildings

Where monuments, statues and historic buildings are recognised on the balance sheet they are reported at insurance value, where available, otherwise at existing use value or at cost.

## Civic Regalia and Silverware

Civic regalia and silverware are recorded at insurance value, where available, or the amount at which they have been valued by professional valuers.

Insurance values are reviewed regularly and assets will be revalued where a change is deemed to be significant.

## 14. Investment Properties

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

| 2014-15<br>£000                                  | 2015-16<br>£000 |
|--|-----------------|
| 3,481 Balance at start of the year               | 3,743           |
| Additions:                                       |                 |
| - Enhancements                                   | -               |
| - Disposals                                      | -1,575          |
| 267 Net gains/losses from fair value adjustments | 437             |
| Transfers:                                       |                 |
| -5 To/from Property, Plant and Equipment         | -339            |
| <b>3,743 Balance at end of the year</b>          | <b>2,266</b>    |

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 for repairs, maintenance or enhancement.

## 15. Financial Instruments

### Categories of Financial Instruments

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

| 2014-15                             |                 |   | 2015-16           |                 |
|-------------------------------------|-----------------|---|-------------------|-----------------|
| Long-term<br>£000                   | Current<br>£000 |   | Long-term<br>£000 | Current<br>£000 |
| <b>Investments</b>                  |                 |   |                   |                 |
| 20,019                              | 83,444          | Loans and receivables                     | 19                | 156,631         |
| 10,558                              | -               | Available-for-sale financial assets       | 10,558            | -               |
| -                                   | -               | Unquoted equity investment at cost        | 1,750             | -               |
| <b>30,577</b>                       | <b>83,444</b>   | <b>Total Investments</b>                  | <b>12,327</b>     | <b>156,631</b>  |
| <b>Debtors:</b>                     |                 |   |                   |                 |
| 19,372                              | 45,032          | Loans and receivables                     | 21,682            | 44,604          |
| <b>19,372</b>                       | <b>45,032</b>   | <b>Total Debtors</b>                      | <b>21,682</b>     | <b>44,604</b>   |
| <b>Borrowings:</b>                  |                 |   |                   |                 |
| -457,752                            | -4,442          | Financial Liabilities at amortised cost   | 236,221           | 13,081          |
| <b>-457,752</b>                     | <b>-4,442</b>   | <b>Total Borrowings</b>                   | <b>236,221</b>    | <b>13,081</b>   |
| <b>Other Long term Liabilities:</b> |                 |   |                   |                 |
| -44,975                             | -3,190          | PFI and finance lease liabilities         | -45,541           | -3,762          |
| <b>-44,975</b>                      | <b>-3,190</b>   | <b>Total other long term liabilities:</b> | <b>-45,541</b>    | <b>-3,762</b>   |
| <b>Creditors:</b>                   |                 |   |                   |                 |
| -                                   | -94,343         | Financial liabilities at amortised cost   | -                 | -98,616         |
| <b>-</b>                            | <b>-94,343</b>  | <b>Total Creditors</b>                    | <b>-</b>          | <b>-98,616</b>  |

In addition to the above categories of financial instruments, cash and cash equivalents are also financial instruments as defined by International Accounting Standard (IAS) 32. Further details can be found in Note 19.

Under accounting requirements the carrying value of the financial instrument is shown in the balance sheet. This includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is essentially accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

### Soft Loans

The Council will sometimes make loans at less than market rates, where a service objective justifies making a concession. The Code requires the discounted interest rate to be recognised as a reduction in the fair value of the asset when measured for the first

time. This treatment reflects the economic substance of the transaction, i.e. the Council is locking itself into an arrangement where it will incur an effective loss on interest receivable over the life of the instrument.

### **Loans to Voluntary Organisations**

The Council has made a number of loans to voluntary organisations at less than market rates (soft loans). The value of soft loans issued by the Council at 31 March 2016 was £0.061m (31 March 2015 £0.063m). They are not considered to be material.

The difference between the carrying amount and the fair value of soft loans to voluntary organisations is not considered material and therefore no adjustments have been made.

### **Employee Car Loans**

The Council made loans for car purchase to 72 employees. These employees are in posts that require them to drive regularly on the Council's business. Interest is charged on the loans based on the emissions of the vehicle. At the current level of interest rates, the Council assesses that the rate for such loans are no longer less than market rates. The scheme is no longer available to employees.

The value of soft loans issued by the Council at 31 March 2016 was £0.023m (31 March 2015 £0.102m).

The difference between the carrying amount and the fair value of soft loans is not considered material and therefore no adjustments have been made.

### **Soft Loans received by the Council**

There are also occasions when the Council is in receipt of loans that are interest free or at less than prevailing market rates. If material, the effective interest rate of these loans should be calculated so that the value of the financial assistance provided to the Council can be separated from the financing cost of the transaction.

At 31 March 2016, the value of soft loans received by the Council was nil (31 March 2015, nil).

The difference between the carrying amount and the fair value of soft loans is not considered material and therefore no adjustments have been made.

### **Reclassifications**

There have been no reclassifications for the financial year 2015/16.

## Income, Expense, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

| 2014-15  |   |                                      |  |        | 2015-16   |  |   |                                      |  |        |
|--|---|--------------------------------------|--|--------|---|--|---|--------------------------------------|--|--------|
| Financial Liabilities measured at amortised cost | Financial Assets: Loans and receivables | Financial Assets: Available for sale | Assets and Liabilities at Fair Value through Profit and Loss | Total  |   | Financial Liabilities measured at amortised cost | Financial Assets: Loans and receivables | Financial Assets: Available for sale | Assets and Liabilities at Fair Value through Profit and Loss | Total  |
| £000   | £000                                    | £000                                 | £000   | £000   |   | £000   | £000                                    | £000                                 | £000   | £000   |
| 24,449   | -                                       | -                                    | -  | 24,449 | Interest expense  | 92,545   | -                                       | -                                    | -  | 92,545 |
| -  | 270                                     | -                                    | -  | 270    | Impairment losses   | -  | -                                       | -                                    | -  | -      |
| 24,449   | 270                                     | -                                    | -  | 24,719 | <b>Total expense in Surplus or Deficit on the Provision of Services</b> | 92,545   | -                                       | -                                    | -  | 92,545 |
| -  | -2,393                                  | -                                    | -  | -2,393 | Interest income   | -  | -4,894                                  | -                                    | -  | -4,894 |
| -  | -2                                      | -                                    | -  | -2     | Interest income accrued on impaired financial assets                    | -  | -                                       | -                                    | -  | -      |
| -  | -2,395                                  | -                                    | -  | -2,395 | <b>Total income in Surplus or Deficit on the Provision of Services</b>  | -  | -4,894                                  | -                                    | -  | -4,894 |
| 24,449   | -2,125                                  | -                                    | -  | 22,324 | <b>Net gain/(loss) for the year</b>                                     | 92,545   | -4,894                                  | -                                    | -  | 87,651 |

## Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable, prevailing benchmark market rates have been used to provide the fair value;

- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months, or is a trade or other receivable, the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

| <u>31 March 2015</u>    |                    |                                    | <u>31 March 2016</u>    |                    |  |
|-------------------------|--------------------|------------------------------------|-------------------------|--------------------|--|
| Carrying Amount<br>£000 | Fair Value<br>£000 |                                    | Carrying Amount<br>£000 | Fair Value<br>£000 |  |
| -405,501                | -533,892           | PWLB debt                          | -193,984                | -224,988           |  |
| -51,651                 | -62,189            | Non-PWLB debt                      | -51,639                 | -63,398            |  |
| -223                    | -223               | Short term borrowing               | -10,002                 | -10,002            |  |
| -114,269                | -114,269           | Short term creditors               | -107,449                | -107,449           |  |
| -2,389                  | -2,389             | Short term finance lease liability | -2,839                  | -2,839             |  |
| -                       | -                  | Long-term creditors                | -                       | -                  |  |
| -3,916                  | -3,916             | Long-term finance lease liability  | -5,405                  | -5,405             |  |
| <b>-577,949</b>         | <b>-716,878</b>    | <b>Total Liabilities</b>           | <b>-371,318</b>         | <b>-414,081</b>    |  |

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 31 March 2016) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £224.988m 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. The difference between the carrying amount and the fair value measures the additional interest that the authority 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 authority 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 authority 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 £193.984m would be valued at £224.988m. But, if the authority were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £243.058m.

| 31 March 2015           |                    |                        | 31 March 2016           |                    |  |
|-------------------------|--------------------|------------------------|-------------------------|--------------------|--|
| Carrying Amount<br>£000 | Fair Value<br>£000 |                        | Carrying Amount<br>£000 | Fair Value<br>£000 |  |
| 83,444                  | 83,444             | Short term investments | 156,631                 | 156,631            |  |
| 20,000                  | 20,111             | Long term investments  | -                       | -                  |  |
| 45,031                  | 45,031             | Short term debtors     | 44,605                  | 44,605             |  |
| 19,372                  | 19,372             | Long-term debtors      | 21,682                  | 21,682             |  |
| <b>167,847</b>          | <b>167,958</b>     | <b>Total Assets</b>    | <b>222,918</b>          | <b>222,918</b>     |  |

The fair value for loans and receivables have been determined by reference to similar practices as above which provide a reasonable approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value.

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

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

| Financial assets measured at fair value                     |  |  |                                   |                                   |
|---|--|--|-----------------------------------|-----------------------------------|
|   | Input level<br>in fair<br>value<br>hierarchy | Valuation technique<br>used to measure fair<br>value | As at 31<br>March<br>2016<br>£000 | As at 31<br>March<br>2015<br>£000 |
| Recurring fair value measurements                           |  |  |                                   |                                   |
| Equity shareholding in Newcastle International Airport Ltd. | Level 3                                      | Valued at cost                                       | 10,558                            | 10,558                            |
| Equity shareholding in Durham Tees Valley Ltd.              | Level 3                                      | Valued at cost                                       | -                                 | -                                 |
| Equity shareholding in Chapter Homes.                       | Level 3                                      | Valued at cost                                       | 450                               | -                                 |
| Equity shareholding in Polyphotonix.                        | Level 3                                      | Valued at cost                                       | 300                               | -                                 |
| Equity shareholding in Forrest Park (Newton Aycliffe).      | Level 3                                      | Valued at cost                                       | 1,000                             | -                                 |
| <b>Total</b>  |  |  | <b>12,308</b>                     | <b>10,558</b>                     |

## Equity Shareholdings

The Authority's equity shareholdings are shown in the table above– the shares in these companies are not traded in an active market and fair value of £12.308m has been based on valuation techniques that are not based on observable current market transactions or available market data. The valuation has been made at cost as there is no intention to sell.



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## Transfers between Levels of the Fair Value Hierarchy

There were no transfers between input levels 1 and 2 during the year.

## Changes in the Valuation Technique

There has been no change in the valuation technique used during the year for the financial instruments.

## 16. Nature and Extent of Risks Arising from Financial Instruments

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 commitments to make payments
- Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- 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 procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks and potential adverse effects on resources available to fund services. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations and are carried out by the Council's Treasury Management team.

These regulations 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 risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Council's overall borrowing;

- Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a 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 procedures are required to be reported and approved at or before the Council's annual Council Tax setting budget meeting or before the start of the year to which they relate. These items are reported with the Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual Treasury Management Strategy which incorporates the prudential indicators was approved by Council on 25 February 2015 and updated on 24 February 2016 and is available on the Council's website.

The key issues within the strategy were:

- The Authorised Limit for 2015/16 was set at £561m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was set at £508m. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 30% based on the Council's net debt.

These policies are implemented by the Treasury Management team. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

### **Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

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, in accordance with the Fitch, Moody's and Standard and Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and

financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after these initial criteria are applied. Details of the Investment Strategy can be found on the Council's website.

The Council uses the creditworthiness service provided by Capita. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit ratings of Short Term of F1, Long Term A, Support BB and Individual 3 (Fitch or equivalent rating), with the lowest available rating being applied to the criteria.
- UK institutions provided with support from the UK Government;
- Building Societies which meet the ratings for banks outlined above.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £195.444m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk that deposits may be irrecoverable applies to all of the Council's deposits, but there was no evidence at the 31 March 2016 that this was likely to be the case.

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 and bonds.

No credit limits were exceeded 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, although £18.647m of the £55.755m balance is past its due date for payment. The amount past its due date for payment can be analysed by age as follows:

| <b>31 March 2015</b> |                                 | <b>31 March 2016</b> |
|----------------------|---------------------------------|----------------------|
| <b>£000</b>          |                                 | <b>£000</b>          |
| 11,002               | Less than three months          | 13,527               |
| 1,080                | Between three and six months    | 873                  |
| 1,142                | Between six months and one year | 1,457                |
| 2,474                | More than one year              | 2,790                |
| <u>15,698</u>        | <b>Total</b>                    | <u>18,647</u>        |

The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2016 was £3.362m.

### **Credit Risk – Icelandic Investments Disclosure**

The County Council had £7m deposited across the Icelandic banks Glitnir Bank hf (£4m), Landsbanki (£2m) and Kaupthing Singer and Friedlander Ltd (£1m), which all collapsed financially in October 2008.

The only outstanding balance as at 31 March 2016 is in relation to the investment with Kaupthing Singer and Friedlander Ltd (KSF). All monies with KSF are currently subject to the respective administration and receivership processes. The Council's recovery position at 31 March 2016 is that 82.5% of the outstanding balance has been repaid. 85.5%-86.5% recovery is anticipated in the long run.

### **Liquidity Risk**

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

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.

There are sums owing of £213.650m, all of which is due to be paid in less than one year.

### **Refinancing and Maturity Risk**

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the 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 indicator 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 Treasury Management 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 the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, (as approved by Council in the Treasury Management Strategy):

| <b>31 March 2015</b> |                                      | <b>31 March 2016</b> |
|----------------------|--------------------------------------|----------------------|
| <b>£000</b>          |                                      | <b>£000</b>          |
| 223                  | Less than one year                   | 10,002               |
| 15,234               | Between one and two years            | 2                    |
| 41,650               | Between two and five years           | 32,008               |
| 99,490               | Between five and ten years           | 62,621               |
| 80,124               | Between ten and fifteen years        | 89,895               |
| 82,173               | Between fifteen and twenty years     | 4,004                |
| 55,818               | Between twenty and twenty five years | -                    |
| 82,663               | More than twenty five years          | 47,090               |
| <b>457,375</b>       | <b>Total</b>                         | <b>245,622</b>       |

## Market Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

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

Borrowings are not carried at fair value, 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. 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 draws 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 maximum limits for fixed and variable interest rate exposure. The Treasury Management team monitors the market and forecasts 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 rate borrowing would be postponed.

The Treasury Management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2016, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £26.380m in the fair value of fixed rate borrowings, although this would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

The approximate 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.

However, the Council does have shareholdings to the value of £12.308m (£10.558m in 2014/15) in organisations that are not listed on the stock exchange. The Council is therefore not exposed to losses arising from the movement in the price of shares, but is exposed to loss from revaluations of these shares.

The Council also has a shareholding in Durham Tees Valley Airport which is not listed on the stock exchange. They are held at nil value.

Reconciliation of Fair Value Measurements for Financial Assets Carried at Fair Value  
Categorised within Level 3 of the Fair Value Hierarchy for Financial Assets:

| 31 March 2015              |               |               |   | 31 March 2016              |               |               |
|----------------------------|---------------|---------------|---|----------------------------|---------------|---------------|
| Unquoted<br>Shares<br>£000 | Other<br>£000 | Total<br>£000 |   | Unquoted<br>Shares<br>£000 | Other<br>£000 | Total<br>£000 |
| 10,558                     | -             | 10,558        | Opening balance   | 10,558                     | -             | 10,558        |
| -                          | -             | -             | Transfers into Level 3                                      | -                          | -             | -             |
| -                          | -             | -             | Total gains and losses for the period                       | -                          | -             | -             |
| -                          | -             | -             | Included in Surplus or Deficit on the Provision of Services | -                          | -             | -             |
| -                          | -             | -             | Included in Other Comprehensive Income and Expenditure      | -                          | -             | -             |
| -                          | -             | -             | Additions   | 1,750                      | -             | 1,750         |
| -                          | -             | -             | Disposals   | -                          | -             | -             |
| <b>10,558</b>              | <b>-</b>      | <b>10,558</b> | <b>Closing Balance</b>                                      | <b>12,308</b>              |               | <b>12,308</b> |

## 17. Inventories

|                                  | Balance outstanding<br>at start of year<br>£000 | Purchases<br>£000 | Recognised as an<br>expense in the year<br>£000 | Adjustment for internal<br>inventories<br>£000 | Reversals of write-offs<br>in previous years<br>£000 | Balance outstanding<br>at year-end<br>£000 |
|----------------------------------|---|-------------------|---|--|--|--|
| <b>Year to 31 March 2016</b>     |   |                   |   |  |  |  |
| Consumable Stores                | 2,918   | 10,567            | -9,607  | -  | -  | 3,878                                      |
| Maintenance Materials            | 428   | 915               | -923  | -  | -  | 420  |
| Client Services Work in Progress | -44   | 631               | -269  | -  | -  | 318  |
| Rechargeable Works               | 265   | 459               | -274  | -  | -  | 450  |
| <b>Total</b>                     | <b>3,567</b>                                    | <b>12,572</b>     | <b>-11,073</b>                                  | <b>-</b>                                       | <b>-</b>   | <b>5,066</b>                               |
| <b>Year to 31 March 2015</b>     |   |                   |   |  |  |  |
| Consumable Stores                | 2,329   | 10,755            | -10,166   | -  | -  | 2,918                                      |
| Maintenance Materials            | 479   | 3,866             | -3,917  | -  | -  | 428  |
| Client Services Work in Progress | 212   | 73                | -329  | -  | -  | -44  |
| Rechargeable Works               | 107   | 363               | -205  | -  | -  | 265  |
| <b>Total</b>                     | <b>3,127</b>                                    | <b>15,057</b>     | <b>-14,617</b>                                  | <b>-</b>                                       | <b>-</b>   | <b>3,567</b>                               |

**18. Short Term Debtors**

| <b>2014-15</b>                          | <b>2015-16</b> |
|---|----------------|
| <b>£000</b>                             | <b>£000</b>    |
| 20,850 Central government bodies        | 10,923         |
| 2,597 Other local authorities           | 11,379         |
| 1,650 NHS bodies                        | 2,037          |
| - Public corporations and trading funds | -              |
| 63,347 Other entities and individuals   | 55,755         |
| -27,688 Less: Impairment Allowance      | -25,802        |
| 60,756                                  | 54,292         |
| 3,593 Payments in advance               | 3,110          |
| <b>64,349 Total</b>                     | <b>57,402</b>  |

**19. Cash and Cash Equivalents**

| <b>2014-15</b>                                  | <b>2015-16</b> |
|---|----------------|
| <b>£000</b>                                     | <b>£000</b>    |
| 585 Cash at bank                                | 613            |
| -6,010 Overdraft                                | -436           |
| 58,737 Cash held on demand (call accounts)      | 37,901         |
| 19,876 Deposits held for liquidity purposes     | 912            |
| <b>73,188 Cash and Cash Equivalents balance</b> | <b>38,990</b>  |

**20. Assets Held For Sale (Current)**

| <b>2014-15</b>                                  | <b>2015-16</b> |
|---|----------------|
| <b>£000</b>                                     | <b>£000</b>    |
| 940 <b>Balance outstanding at start of year</b> | 3,231          |
| Assets newly classified as held for sale:       |                |
| 3,234 Property, Plant and Equipment             | 8,005          |
| - Revaluations                                  | -368           |
| Assets declassified as Held for Sale:           |                |
| - Property, Plant and Equipment                 | -              |
| -943 Assets sold                                | -4,208         |
| <b>3,231 Balance outstanding at year-end</b>    | <b>6,660</b>   |

**21. Short Term Creditors**

| <b>2014-15</b>                            | <b>2015-16</b>  |
|---|-----------------|
| <b>£000</b>                               | <b>£000</b>     |
| -19,141 Central government bodies         | -25,205         |
| -740 Other local authorities              | -1,516          |
| -2,143 NHS bodies                         | -2,211          |
| -19 Public corporations and trading funds | -               |
| -88,136 Other entities and individuals    | -70,711         |
| -110,179                                  | -99,644         |
| -4,091 Receipts in Advance                | -7,805          |
| <b>-114,269 Total creditors</b>           | <b>-107,449</b> |



## 22. Provisions

The provisions at 31 March 2016 were as follows:

### Insurance Provision

The Council operates a self-insurance scheme for the following risks:

- Claims below the excess level for externally insured risks
- Schools contents
- Theft of cash
- Flood damage

The provision is based on external insurers' estimates of the cost of identified claims for damages and associated costs in respect of fire, public and employer's liabilities, to be borne by the Council. Settlement of the claims will continue over the coming years and the provision will be reassessed on an annual basis.

### Equal Pay

A provision has been created to recognise in the accounts those costs relating to Equal Pay and Job Evaluation that have been calculated but will be settled in future periods.

### NDR Appeals

The provision represents the Council's share of the provision held for successful appeals against business rates.

### Other

This includes a general purpose provision of £0.064m for commuted sums.

|                                       | Insurance<br>£000 | Equal Pay<br>£000 | NDR<br>Appeals<br>£000 | Other<br>Provisions<br>£000 | Total<br>£000 |
|---------------------------------------|-------------------|-------------------|------------------------|-----------------------------|---------------|
| <b>Balance at 1 April 2015</b>        | 8,898             | 61                | 3,766                  | 1,064                       | 13,789        |
| Additional provisions made in 2015-16 | 4,549             | 13                | 5,611                  | -                           | 10,173        |
| Amounts used in 2015-16               | -2,532            | -                 | -436                   | -1,000                      | -3,968        |
| Unused amounts reversed in 2015-16    | -2,440            | -                 | -                      | -                           | -2,440        |
| Unwinding of discounting in 2015-16   | -                 | -                 | -                      | -                           | 0             |
| <b>Balance at 31 March 2016</b>       | <b>8,475</b>      | <b>74</b>         | <b>8,941</b>           | <b>64</b>                   | <b>17,554</b> |
| <b>As shown in Balance Sheet</b>      |                   |                   |                        |                             |               |
| Long Term Provisions                  | 5,216             | -                 | 8,941                  | -                           | 14,157        |
| Short Term Provisions                 | 3,259             | 74                | -                      | 64                          | 3,397         |
| <b>Balance at 31 March 2016</b>       | <b>8,475</b>      | <b>74</b>         | <b>8,941</b>           | <b>64</b>                   | <b>17,554</b> |

## 23. Usable Reserves

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

| <b>31 March 2015</b>                           | <b>31 March 2016</b> |
|--|----------------------|
| <b>£000</b>                                    | <b>£000</b>          |
| 219 Usable Capital Receipts Reserve            | 362                  |
| 609 Capital Grants and Contributions Unapplied | 524                  |
| 26,078 Housing Revenue Account                 | -                    |
| 28,897 General Fund Balance                    | 29,101               |
| 214,557 Earmarked Reserves                     | 241,643              |
| <b>270,360 Total</b>                           | <b>271,630</b>       |

### Usable Capital Receipts Reserve

Proceeds of fixed assets' sales available to meet future capital investment.

### Capital Grants and Contributions Unapplied

The balance is in respect of capital grants or contributions (or part thereof) that has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from that grant or contribution that has not been incurred at the Balance Sheet date.

### Housing Revenue Account

Resources available to meet future running costs for council housing.

### General Fund Balance

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

### Earmarked Reserves

Earmarked Reserves are shown in more detail in Note 8 and are resources set aside for future spending plans.

## 24. Unusable Reserves

| 31 March 2015<br>£000                                   | 31 March 2016<br>£000 |
|---|-----------------------|
| 539,632 Revaluation Reserve                             | 504,364               |
| 597,603 Capital Adjustment Account                      | 694,829               |
| -2,040 Financial Instruments Adjustment Account         | -1,960                |
| 888 Deferred Capital Receipt                            | 4,125                 |
| -15,035 Short Term Accumulating Absences Account        | -13,233               |
| -936,301 Pensions Reserve                               | -904,286              |
| 10,280 Available for Sale Financial Instruments Reserve | 10,280                |
| 1,160 Collection Fund                                   | 2,380                 |
| <b>196,187 Total</b>                                    | <b>296,499</b>        |

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment, Intangible Assets and Heritage Assets. 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.

| 2014-15<br>£000  | 2015-16<br>£000 |
|--|-----------------|
| 393,396 <b>Balance at 1 April</b>  | 539,632         |
| 210,688 Upward revaluation of assets   | 48,371          |
| Downward revaluation of assets and impairment losses not charged to the              |                 |
| -48,123 Surplus/Deficit on the Provision of Services                                 | -44,618         |
| Surplus or deficit on revaluation of non-current assets not posted to the Surplus or |                 |
| 162,565 Deficit on the Provision of Services   | 3,753           |
| -12,264 Difference between fair value depreciation and historical cost depreciation  | -16,438         |
| -4,065 Accumulated gains on assets sold or scrapped                                  | -22,583         |
| -16,329 Amount written off to the Capital Adjustment Account                         | -39,021         |
| <b>539,632 Balance at 31 March</b>   | <b>504,364</b>  |

### **Capital Adjustment Account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs, because depreciation, impairment losses and amortisations 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 Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2014-15<br>£000<br>(restated)   | 2015-16<br>£000 |
|---|-----------------|
| 893,779 <b>Balance at 1 April</b>   | 597,603         |
| Reversal of items relating to capital expenditure debited or credited to the<br>Comprehensive Income and Expenditure Statement:                                       |                 |
| -64,436 - Charges for depreciation and impairment of non-current assets   | -57,732         |
| -352,770 - Revaluation losses on Property, Plant and Equipment  | -14,648         |
| -1,141 - Amortisation of intangible assets  | -846            |
| -16,935 - Revenue expenditure funded from capital under statute   | -29,868         |
| -10,276 - Amounts of non-current assets written off on disposal or sale as part of the gain/loss<br>on disposal to the Comprehensive Income and Expenditure Statement | -185,802        |
| -445,558  | -288,896        |
| 16,329 Adjusting amounts written out of the Revaluation Reserve   | 39,022          |
| -429,229 Net written out amount of the cost of non-current assets consumed in the year  | -249,874        |
| Capital financing applied in the year:  |                 |
| 12,976 - Use of Capital Receipts Reserve to finance new capital expenditure   | 10,183          |
|   | 114,400         |
| 7,468 - Use of the Major Repairs Reserve to finance new capital expenditure   | -               |
| 75,276 - Capital grants and contributions credited to the Comprehensive Income and<br>Expenditure Statement that have been applied to capital financing               | 52,087          |
| - Capital grants and contributions credited to the Comprehensive Income and<br>Expenditure Statement to repay debt - Housing Stock Transfer                           | 129,600         |
| 113 Application of grants and contributions to capital financing from the Capital Grants<br>Unapplied account   | 85              |
| 15,730 - Statutory provision for the financing of capital investment charged against the General<br>Fund and HRA balances   | 16,569          |
| 21,581 - Capital expenditure charged against the General Fund and HRA balances  | 23,770          |
| 133,144   | 346,694         |
| -91 Movements in the fair value of Investment Properties debited or credited to the<br>Comprehensive Income and Expenditure Statement                                 | 406             |
| 597,603 <b>Balance at 31 March</b>  | 694,829         |

The 2014/15 comparator has been restated to show revenue expenditure funded from capital under statute (REFCUS) on a gross rather than net basis.

### Deferred Capital Receipts Reserve

The deferred capital receipts reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

| 2014-15<br>£000   | 2015-16<br>£000 |
|---|-----------------|
| 1,345 <b>Balance at 1 April</b>   | 888             |
| 725 Transfer of deferred sale proceeds credited as part of the gain/loss on<br>disposal to the Comprehensive Income and Expenditure Statement | 3,970           |
| -1,182 Transfer to the Capital Receipts Reserve upon receipt of cash  | -733            |
| 888 <b>Balance at 31 March</b>  | 4,125           |

## 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, e.g. 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.

| 2014-15<br>£000 |  | 2015-16<br>£000 |
|-----------------|--|-----------------|
| -12,814         | <b>Balance at 1 April</b>  | -15,035         |
| 12,814          | Settlement or cancellation of accrual made at the end of the preceding year  | 15,035          |
| -15,035         | Amounts accrued at the end of the current year   | -13,233         |
| -2,221          | Amount by which office 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 | 1,802           |
| <u>-15,035</u>  | <b>Balance at 31 March</b>   | <u>-13,233</u>  |

## 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 Comprehensive Income and Expenditure Statement 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 pay 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. Further detail can be found in Note 45.

| 2014-15<br>£000 |   | 2015-16<br>£000 |
|-----------------|---|-----------------|
| -802,722        | <b>Balance at 1 April</b>   | -936,301        |
| -114,380        | Remeasurements of the net defined benefit liability   | 54,480          |
| -8              | Difference between Actuary's estimate and Actual Employers' Pension Contributions   | -389            |
| -80,230         | Reversals 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 | -83,850         |
| 61,039          | Employer's pensions contributions and direct payments to pensioners payable in the year   | 61,775          |
| <u>-936,301</u> | <b>Balance at 31 March</b>  | <u>-904,285</u> |

## Available for Sale Financial Instruments Reserve

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

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

| 2014-15<br>£000   | 2015-16<br>£000 |
|---|-----------------|
| 10,280 <b>Balance at 1 April</b>  | 10,280          |
| - Transfer of historic Available for Sale balance to Available for Sale Reserve   | -               |
| - Upward revaluation of investments   | -               |
| - Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services   | -               |
| 10,280  | 10,280          |
| - Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income | -               |
| 10,280 <b>Balance at 31 March</b>   | 10,280          |

## 25. Cash Flow Statement – Non-Cash Movements

| 2014-15<br>£'000                                     | 2015-16<br>£'000 |
|--|------------------|
| -58,288 Depreciation                                 | -54,908          |
| -359,144 Impairment and downward revaluation         | -17,472          |
| -1,141 Amortisations                                 | -846             |
| -270 Impairment of Icelandic assets                  | 0                |
| 2,221 Transfer to/from Accumulated Absences account  | -1,802           |
| 421 Increase/decrease in the provision for bad debts | -2,469           |
| -1,778 Increase/decrease in creditors                | -5,018           |
| -4,281 Increase/decrease in debtors                  | -4,478           |
| 440 Increase/decrease in inventory                   | 1,499            |
| -19,191 Pension liability                            | -22,075          |
| -10,276 Carrying amount of non-current assets sold   | -71,520          |
| 77,060 Other non-cash items                          | 264,545          |
| -374,227   | 85,456           |

**26. Cash Flow Statement – Items Included in Investing Activities**

| 2014-15<br>£000 |  | 2015-16<br>£000 |
|-----------------|--|-----------------|
| 13,207          | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 124,027         |
| <u>13,207</u>   | <b>Net cash flows from investing activities</b>  | <u>124,027</u>  |

**27. Cash Flow Statement – Operating Activities**

The cash flows for operating activities include the following items:

| 2014-15<br>£000 |   | 2015-16<br>£000 |
|-----------------|---|-----------------|
| 19,436          | Interest paid                                   | 20,381          |
| -1,076          | Interest received                               | -3,523          |
| -               | Dividends received                              | -               |
| <u>18,360</u>   | <b>Net cash flows from operating activities</b> | <u>16,858</u>   |

**28. Cash Flow Statement – Investing Activities**

| 2014-15<br>£000 |  | 2015-16<br>£000 |
|-----------------|--|-----------------|
| 136,406         | Purchase of property, plant and equipment, investment property and intangible assets   | 90,925          |
| 312,260         | Purchase of short-term (not considered to be cash equivalents) and long-term investments   | 547,463         |
| -               | Other payments for investing activities  | -               |
| -13,207         | Proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets | -124,027        |
| -266,618        | Proceeds from short-term (not considered to be cash equivalents) and long-term investments   | -494,275        |
| -63,732         | Other receipts from investing activities   | -232,856        |
| <u>105,109</u>  | <b>Net cash flows from investing activities</b>  | <u>-212,770</u> |

**29. Cash Flow Statement – Financing Activities**

| 2014-15<br>£000 |  | 2015-16<br>£000 |
|-----------------|--|-----------------|
| -25,000         | Cash receipts of short-term and long-term borrowing  | -               |
| -12,466         | Other receipts from financing activities   | -8,969          |
| 2,139           | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | 8,038           |
| 4,458           | Repayments of short-term and long-term borrowing   | 82,152          |
| -               | Other payments for financing activities  | -               |
| <u>-30,869</u>  | <b>Net cash flows from financing activities</b>  | <u>81,221</u>   |



### 30. Amounts Reported for Resource Allocation Decisions

The tables below are a reconciliation of the 2015/16 internal management reports (monitoring and outturn) used by the Council's Cabinet to make decisions and the 2015/16 Comprehensive Income and Expenditure Statement (CIES).

The income and expenditure of the Council's principal Services recorded in the internal management reports for the year is as follows:

2015/16:

| Subjective Analysis                    | Childrens and<br>Adults Services<br>£000 | Neighbourhood<br>Services<br>£000 | Regeneration and<br>Economic<br>Development<br>£000 | Corporate<br>Resources<br>£000 | Assistant Chief<br>Executive<br>£000 | Total<br>£000     |
|--|--|-----------------------------------|---|--------------------------------|--------------------------------------|-------------------|
| Fees, charges and other service income | -193,959                                 | -140,665                          | -46,424   | -64,044                        | -3,168                               | -448,260          |
| Government grants                      | -377,015                                 | -1,061                            | -8,170  | -182,172                       | -1,466                               | -569,884          |
| <b>Total Income</b>                    | <b>-570,974</b>                          | <b>-141,726</b>                   | <b>-54,594</b>                                      | <b>-246,216</b>                | <b>-4,634</b>                        | <b>-1,018,144</b> |
| Employee Expenses                      | 355,705                                  | 80,639                            | 28,050  | 42,222                         | 6,720                                | 513,336           |
| Other operating expenses               | 409,473                                  | 142,298                           | 45,900  | 207,208                        | 7,096                                | 811,975           |
| Support recharges                      | 43,880                                   | 22,784                            | 5,656   | 12,209                         | 1,018                                | 85,547            |
| <b>Total Operating Expenses</b>        | <b>809,058</b>                           | <b>245,721</b>                    | <b>79,606</b>                                       | <b>261,639</b>                 | <b>14,834</b>                        | <b>1,410,858</b>  |
| <b>Net Cost of Services</b>            | <b>238,084</b>                           | <b>103,995</b>                    | <b>25,012</b>                                       | <b>15,423</b>                  | <b>10,200</b>                        | <b>392,714</b>    |

#### Reconciliation to cost of services in the CIES

£000

|  |         |
|--|---------|
| Net cost of services in service analysis   | 392,714 |
| Services not included in the main analysis | -6,951  |
| Amounts not reported to management         | 6,445   |
| Amounts not included in the CIES           | 34,167  |

#### Cost of Services in CIES

426,375

| Reconciliation to Subjective Analysis              | Service<br>Analysis<br>£000 | Services not in<br>Analysis<br>£000 | Not reported to<br>Mngmt<br>£000 | Not Included in<br>CI+E<br>£000 | Cost of Services<br>£000 | Corporate<br>Amounts<br>£000 | Total<br>£000     |
|--|-----------------------------|-------------------------------------|----------------------------------|---------------------------------|--------------------------|------------------------------|-------------------|
| Fees, charges and other service income             | -448,260                    | -                                   | -                                | -                               | -448,260                 | -                            | -448,260          |
| Interest and investment income                     | -                           | -                                   | -                                | 111                             | 111                      | -4,893                       | -4,782            |
| Income from Council Tax                            | -                           | -                                   | -                                | -                               | -                        | -190,752                     | -190,752          |
| Government Grants and Contributions                | -569,884                    | -                                   | -                                | 35,201                          | -534,683                 | -474,910                     | -1,009,593        |
| <b>Total Income</b>                                | <b>-1,018,144</b>           | <b>-</b>                            | <b>-</b>                         | <b>35,312</b>                   | <b>-982,832</b>          | <b>-670,555</b>              | <b>-1,653,387</b> |
| Employee Expenses                                  | 513,336                     | -                                   | -                                | -                               | 513,336                  | -                            | 513,336           |
| Other service expenses                             | 811,975                     | -                                   | -                                | -4,302                          | 807,673                  | -                            | 807,673           |
| Support Service recharges                          | 85,547                      | -                                   | -                                | -                               | 85,547                   | -                            | 85,547            |
| Contribution to Housing Capital Receipts Pool      | -                           | -                                   | -                                | -                               | -                        | 34                           | 34                |
| Interest Payable                                   | -                           | -                                   | -                                | -                               | -                        | 92,545                       | 92,545            |
| Impairment of Financial Investments                | -                           | -                                   | -                                | -                               | -                        | -                            | -                 |
| Net Trading  | -                           | -                                   | -                                | 5,929                           | 5,929                    | -5,929                       | -                 |
| Precepts and Levies                                | -                           | -                                   | -                                | -                               | -                        | 27,475                       | 27,475            |
| HRA  | -                           | -                                   | 2,580                            | -                               | 2,580                    | -                            | 2,580             |
| Gain or Loss on the disposal of non-current assets | -                           | -                                   | -                                | -                               | -                        | 57,805                       | 57,805            |
| Direct Revenue Financing                           | -                           | -                                   | -                                | -3,197                          | -3,197                   | -                            | -3,197            |
| Movement in Fair Value of Investment Properties    | -                           | -                                   | -                                | 406                             | 406                      | -406                         | -                 |
| Other Adjustments                                  | -                           | -                                   | 3,865                            | 19                              | 3,884                    | -                            | 3,884             |
| IAS19  | -                           | -6,951                              | -                                | -                               | -6,951                   | 28,920                       | 21,969            |
| Total Operating Expenses                           | 1,410,858                   | -6,951                              | 6,445                            | -1,145                          | 1,409,207                | 200,444                      | 1,609,651         |
| <b>Surplus or deficit on provision of services</b> | <b>392,714</b>              | <b>-6,951</b>                       | <b>6,445</b>                     | <b>34,167</b>                   | <b>426,375</b>           | <b>-470,111</b>              | <b>-43,736</b>    |

The tables below are a reconciliation of the 2014/15 internal management reports (monitoring and outturn) used by the Council's Cabinet to make decisions and the 2014/15 Comprehensive Income and Expenditure Statement (CIES).

2014/15:

| Subjective Analysis                    | Childrens and<br>Adults Services<br>£000 | Neighbourhood<br>Services<br>£000 | Regeneration and<br>Economic<br>Development<br>£000 | Corporate<br>Resources<br>£000 | Assistant Chief<br>Executive<br>£000 | Total<br>£000    |
|--|--|-----------------------------------|---|--------------------------------|--------------------------------------|------------------|
| Fees, charges and other service income | -151,766                                 | -160,408                          | -29,643   | -64,791                        | -2,967                               | -409,575         |
| Government grants                      | -384,026                                 | -886                              | -5,981  | -195,336                       | -36                                  | -586,265         |
| <b>Total Income</b>                    | <b>-535,792</b>                          | <b>-161,294</b>                   | <b>-35,624</b>                                      | <b>-260,127</b>                | <b>-3,003</b>                        | <b>-995,840</b>  |
| Employee Expenses                      | 349,482                                  | 86,474                            | 28,867  | 40,224                         | 6,718                                | 511,765          |
| Other operating expenses               | 355,432                                  | 132,659                           | 51,784  | 224,021                        | 6,949                                | 770,845          |
| Support recharges                      | 39,988                                   | 20,197                            | 5,259   | 9,479                          | 1,148                                | 76,071           |
| <b>Total Operating Expenses</b>        | <b>744,902</b>                           | <b>239,330</b>                    | <b>85,910</b>                                       | <b>273,724</b>                 | <b>14,815</b>                        | <b>1,358,681</b> |
| <b>Net Cost of Services</b>            | <b>209,110</b>                           | <b>78,036</b>                     | <b>50,286</b>                                       | <b>13,597</b>                  | <b>11,812</b>                        | <b>362,841</b>   |

**Reconciliation to cost of services in the CIES****£000**

|  |         |
|--|---------|
| Net cost of services in service analysis   | 362,841 |
| Services not included in the main analysis | -13,267 |
| Amounts not reported to management         | 337,204 |
| Amounts not included in the CIES           | 41,599  |

**Cost of Services in CIES****728,377**

| Reconciliation to Subjective Analysis              | Service Analysis<br>£000 | Services not in<br>Analysis<br>£000 | Not reported to<br>Mngmt<br>£000 | Not Included in<br>CI+E<br>£000 | Cost of Services<br>£000 | Corporate<br>Amounts<br>£000 | Total<br>£000     |
|--|--------------------------|-------------------------------------|----------------------------------|---------------------------------|--------------------------|------------------------------|-------------------|
| Fees, charges and other service income             | -409,575                 | -                                   | -                                | -                               | -409,575                 | -                            | -409,575          |
| Interest and investment income                     | -                        | -                                   | -                                | -                               | -                        | -2,395                       | -2,395            |
| Income from Council Tax                            | -                        | -                                   | -                                | -                               | -                        | -179,705                     | -179,705          |
| Government Grants and Contributions                | -586,265                 | -                                   | -                                | 45,372                          | -540,893                 | -337,476                     | -878,369          |
| <b>Total Income</b>                                | <b>-995,840</b>          | <b>-</b>                            | <b>-</b>                         | <b>45,372</b>                   | <b>-950,468</b>          | <b>-519,576</b>              | <b>-1,470,044</b> |
| Employee Expenses                                  | 511,765                  | -                                   | -                                | -                               | 511,765                  | -                            | 511,765           |
| Other service expenses                             | 770,845                  | -                                   | -                                | -4,379                          | 766,466                  | -                            | 766,466           |
| Support Service recharges                          | 76,071                   | -                                   | -                                | -                               | 76,071                   | -                            | 76,071            |
| Contribution to Housing Capital Receipts Pool      | -                        | -                                   | -                                | -                               | -                        | 1,414                        | 1,414             |
| Interest Payable                                   | -                        | -                                   | -                                | -                               | -                        | 24,449                       | 24,449            |
| Impairment of Financial Investments                | -                        | -                                   | -                                | -                               | -                        | 270                          | 270               |
| Net Trading  | -                        | -                                   | -                                | 10,550                          | 10,550                   | -10,692                      | -142              |
| Precepts and Levies                                | -                        | -                                   | -                                | -472                            | -472                     | 10,922                       | 10,450            |
| HRA  | -                        | -                                   | 334,121                          | -                               | 334,121                  | -                            | 334,121           |
| Gain or Loss on the disposal of non-current assets | -                        | -                                   | -                                | -                               | -                        | -3,656                       | -3,656            |
| Direct Revenue Financing                           | -                        | -                                   | -                                | -9,413                          | -9,413                   | -                            | -9,413            |
| Movement in Fair Value of Investment Properties    | -                        | -                                   | -                                | -91                             | -91                      | -267                         | -358              |
| Other Adjustments                                  | -                        | -                                   | 3,083                            | 32                              | 3,115                    | -                            | 3,115             |
| IAS19  | -                        | -13,267                             | -                                | -                               | -13,267                  | 33,160                       | 19,893            |
| Total Operating Expenses                           | 1,358,681                | -13,267                             | 337,204                          | -3,773                          | 1,678,845                | 55,600                       | 1,734,445         |
| <b>Surplus or deficit on provision of services</b> | <b>362,841</b>           | <b>-13,267</b>                      | <b>337,204</b>                   | <b>41,599</b>                   | <b>728,377</b>           | <b>-463,976</b>              | <b>264,401</b>    |

### 31. Trading Operations

The surplus for the year on trading operations relating to Direct Services and Technical Design Services is charged as Financing and Investment Income and Expenditure - Other investment income (see Note 10). The summary revenue account for these services is shown below.

|  | 2013-14 | 2014-15 | 2015-16 |
|--|---------|---------|---------|
|  | £000    | £000    | £000    |

#### Highways Operations

The Council runs a Highways Services trading operation which maintains the network of roads, footpaths and street lighting throughout the County. The service also undertakes major road works and the maintenance of transport and bridge structures, as well as carrying out various infrastructure works for external bodies. The design and build elements of transport related schemes is included in the trading area. The trading objective of the team is to meet the net cash limit target as set. The cumulative surplus over the last three financial years: £20.875m

|                    |               |               |               |
|--------------------|---------------|---------------|---------------|
| Turnover           | -38,581       | -46,581       | -40,958       |
| Expenditure        | 32,545        | 38,199        | 34,501        |
| Surplus(-)/Deficit | <u>-6,036</u> | <u>-8,382</u> | <u>-6,457</u> |

#### Fleet

The Council operates an in house Fleet Management Service which has the direct responsibility for the management and safeguarding of the Council's Operators Licence along with the responsibility of the safe and cost effective maintenance and procurement of the Council's circa 1,000 vehicles. Whilst the objective of the service is to only recover the actual the capital cost and maintenance of the fleet, the service also undertakes taxi vehicle examinations along with maintenance work for external bodies through Service level agreements. The cumulative deficit over the last three financial years: £0.526m

|                    |             |            |            |
|--------------------|-------------|------------|------------|
| Turnover           | -17,914     | -16,532    | -14,806    |
| Expenditure        | 17,301      | 17,153     | 15,324     |
| Surplus(-)/Deficit | <u>-613</u> | <u>621</u> | <u>518</u> |

#### Depots

The Council operates from five main strategic depots and two satellite depots covering the County of Durham. The depots along with possessing vehicle maintenance facilities provide operational bases to front line services for the Authority . The service also lets depot accommodation to external bodies. The trading objective is to meet the net cash limit target as set. The cumulative deficit over the last three financial years : £1.189m

|                    |            |             |              |
|--------------------|------------|-------------|--------------|
| Turnover           | -2,088     | -2,261      | -2,161       |
| Expenditure        | 2,438      | 1,882       | 3,379        |
| Surplus(-)/Deficit | <u>350</u> | <u>-379</u> | <u>1,218</u> |

|  | 2013-14 | 2014-15 | 2015-16 |
|--|---------|---------|---------|
|  | £000    | £000    | £000    |

**Buildings Repairs & Maintenance and Construction**

The Council runs a 'Building Services' team which procures, maintains buildings and constructs major and minor projects on behalf of all Five Directorates within Durham County Council as well as a wide range of other service users. 'Building Services' also complete and carry out work for external bodies both private and public. The in-house team demonstrates Value for Money by delivering services on time, within cost and to the required standard using a combination of directly employed staff and supply chain partners. The costs of services is benchmarked with other Local Authorities and as the 'Building Services' organisation continues to improve its outputs, the hourly rates for tradesmen have fallen from the levels previously. The trading objective of the team is to meet the net cash limit target as set. The cumulative surplus over the last three financial years: £3.965m

|                    |               |               |               |
|--------------------|---------------|---------------|---------------|
| Turnover           | -17,811       | -24,527       | -23,387       |
| Expenditure        | 16,682        | 22,853        | 22,225        |
| Surplus(-)/Deficit | <u>-1,129</u> | <u>-1,674</u> | <u>-1,162</u> |

**Housing Maintenance**

The Council provided a housing repairs and maintenance service on behalf of Durham City Homes until 13 April 2015 when the housing stock was transferred to County Durham Housing Group. The Durham Housing Maintenance Team procured services, maintained tenant's homes and carried out decent homes' improvements to approximately 6,100 homes. The trading objective of the team was to meet the net cash limit target as set. The cumulative surplus over the last three financial years: £1.080m

|                    |               |             |            |
|--------------------|---------------|-------------|------------|
| Turnover           | -10,754       | -9,707      | -60        |
| Expenditure        | 9,652         | 9,570       | 219        |
| Surplus(-)/Deficit | <u>-1,102</u> | <u>-137</u> | <u>159</u> |

**Cleaning Services**

The Council runs a Building Cleaning Service which procures services and maintains buildings, working across the entire portfolio of Durham County Council's buildings. The Building Cleaning Services also undertake works on behalf of a number of service users both internal and external to Durham County Council. The costs of services are benchmarked with other Local Authority providers from across the UK. The trading objective of the team is to meet the net cash limit target set. The cumulative deficit over the last three financial years £0.691m

|                    |             |             |             |
|--------------------|-------------|-------------|-------------|
| Turnover           | -2,934      | -2,820      | -2,126      |
| Expenditure        | 2,587       | 2,589       | 2,013       |
| Surplus(-)/Deficit | <u>-347</u> | <u>-231</u> | <u>-113</u> |

**Catering Services**

The Council runs a Catering Service which procures goods and services, and provides both canteen services and an event catering service. These services are available to both internal and external bodies. The in-house team demonstrates Value for Money having been awarded the catering for Durham County Council following a competitive tender. Services are provided using a combination of directly employed staff and Agency Workers. The trading objective of the team is to meet the net cash limit target as set. The cumulative deficit over the last three financial years £0.500m

|                    |            |            |           |
|--------------------|------------|------------|-----------|
| Turnover           | -655       | -547       | -623      |
| Expenditure        | 940        | 681        | 704       |
| Surplus(-)/Deficit | <u>285</u> | <u>134</u> | <u>81</u> |

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the Council's services to the public (e.g. highways), whilst others are support services to the Council's services to the public (e.g. schools catering). The expenditure of these operations is allocated or recharged to headings in the Net Operating Expenditure or Continuing Operations. Only a residual amount of the net surplus on trading operations is charged as Financing and Investment Income and Expenditure (see Note 10).

### 32. Agency Services

The County Council provides a range of services to other bodies such as Durham Police Authority, County Durham and Darlington Fire and Rescue Authority, Academies, Surestart, Colleges, Arm's Length Management Organisations, Parish Councils, Registered Social Landlords, Primary Care Trusts and Ofsted. Charges for these services are made through a number of Service Level Agreements.

In 2015/16 £9.064m (£8.027m (restated) in 2014/15) was received for the following services, Finance, Information and Communications Technology, Human Resources, Legal Advice and Support, Inspections and Subject Reviews, Cleaning, Care Connect, Ground Maintenance and Crematorium Services.

The increase in Agency Services from 2014/15 to 2015/16 is mainly due to the increase in services provided to County Durham Housing Group.

The cost of providing the services is met by the income received.

### 33. Members' Allowances

The Council paid the following amounts to members of the Council during the year.

| 2014-15<br>£000 |                                  | 2015-16<br>£000 |
|-----------------|----------------------------------|-----------------|
| 1,665           | Basic Allowance                  | 1,667           |
| 282             | Special Responsibility Allowance | 284             |
| 7               | Broadband Allowance              | 7               |
| 84              | Expenses                         | 79              |
| 2,038           | <b>Total</b>                     | 2,037           |

### 34. Officers' Remuneration

The remuneration paid to the Council's senior employees is as follows:

| Name  | Period               | Salary, Fees<br>and Allowances<br>£ | Bonuses<br>£ | Expenses<br>Allowances<br>£ | Compensation<br>for Loss of<br>Office<br>£ | Pensions<br>Contribution<br>£ | Total<br>£         |
|---|----------------------|-------------------------------------|--------------|-----------------------------|--|-------------------------------|--------------------|
| Chief Executive - George<br>Garlick (to 31/1/2016)            | 2015-16<br>2014-15   | 168,590<br>200,000                  |              | 142<br>172                  |  | -<br>-                        | 168,732<br>200,172 |
| Chief Executive - Terry Collins<br>(from 1/2/2016)            | 2015-16<br>2014-15   | 30,833<br>-                         |              | -<br>-                      |  | 4,255<br>-                    | 35,088<br>-        |
| Corporate Director - Resources                                | 2015-16<br>2014-15 R | 140,000<br>140,000                  |              | 579<br>261                  |  | -<br>-                        | 140,579<br>140,261 |
| Corporate Director - Children<br>and Adults Services          | 2015-16<br>2014-15 R | 140,000<br>140,000                  |              | 3<br>49                     |  | 19,320<br>19,320              | 159,323<br>159,369 |
| Corporate Director -<br>Neighbourhood Services                | 2015-16<br>2014-15   | 116,667<br>140,000                  |              | -<br>66                     |  | 16,100<br>19,320              | 132,767<br>159,386 |
| Interim Corporate Director -<br>Neighbourhood Services        | 2015-16<br>2014-15   | 23,333<br>-                         |              | -<br>-                      |  | 3,220<br>-                    | 26,553<br>-        |
| Corporate Director -<br>Regeneration and Economic             | 2015-16<br>2014-15   | 140,000<br>140,000                  |              | 115<br>-                    |  | 19,320<br>19,320              | 159,435<br>159,320 |
| Assistant Chief Executive                                     | 2015-16<br>2014-15   | 120,000<br>120,000                  |              | -<br>-                      |  | 16,560<br>16,560              | 136,560<br>136,560 |
| Head of Legal and Democratic<br>Services (Monitoring Officer) | 2015-16<br>2014-15   | 110,000<br>110,000                  |              | -<br>42                     |  | 14,888<br>14,487              | 124,888<br>124,529 |

**R = Restated**

The Council's employees, receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

| Remuneration band   | 2014-15 (restated)<br>Number of Employees |             |            | 2015-16<br>Number of Employees |             |            |
|---------------------|---|-------------|------------|--------------------------------|-------------|------------|
|                     | School Staff                              | Other Staff | Total      | School Staff                   | Other Staff | Total      |
| £50,000 - £54,999   | 118                                       | 68          | 186        | 102                            | 72          | 174        |
| £55,000 - £59,999   | 95  | 36          | 131        | 117                            | 27          | 144        |
| £60,000 - £64,999   | 37  | 21          | 58         | 39                             | 16          | 55         |
| £65,000 - £69,999   | 18  | 2           | 20         | 24                             | 11          | 35         |
| £70,000 - £74,999   | 12  | 6           | 18         | 10                             | 7           | 17         |
| £75,000 - £79,999   | 4   | 8           | 12         | 2                              | 10          | 12         |
| £80,000 - £84,999   | 3   | 3           | 6          | 4                              | 6           | 10         |
| £85,000 - £89,999   | 4   | 2           | 6          | 4                              | 6           | 10         |
| £90,000 - £94,999   | 3   | -           | 3          | 2                              | 2           | 4          |
| £95,000 - £99,999   | 2   | 7           | 9          | 5                              | 7           | 12         |
| £100,000 - £104,999 | 1   | 1           | 2          | 1                              | 1           | 2          |
| £105,000 - £109,999 | -   | 3           | 3          | -                              | 3           | 3          |
| £110,000 - £114,999 | 1   | 4           | 5          | -                              | 6           | 6          |
| £115,000 - £119,999 | -   | 2           | 2          | -                              | 1           | 1          |
| £120,000 - £124,999 | -   | -           | -          | -                              | 1           | 1          |
| £135,000 - £139,999 | -   | -           | -          | -                              | 1           | 1          |
| £145,000 - £149,999 | -   | 1           | 1          | -                              | -           | -          |
|                     | <b>298</b>                                | <b>164</b>  | <b>462</b> | <b>310</b>                     | <b>177</b>  | <b>487</b> |

The costs of Exit Packages comprise two elements: redundancy costs payable to the employee and early access costs, where the employee is also taking early retirement. The latter element is payable to the Pension Fund and is charged to the General Fund in the year of Retirement.

In 2014/15 the costs of Exit Packages reflect a change in policy. The additional costs of early retirement are included for a period of up to five years. Prior to 2014/15, a maximum of one year's costs were included.

This has resulted in a higher cost being shown for some employees. However, in 2014/15, a higher proportion of redundancies in the lowest band were not eligible for early retirement, leading to lower average costs for that band.

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:



| (a)<br>Exit package cost<br>band (including<br>special payments) | (b)<br>Number of<br>compulsory<br>redundancies |           | (c)<br>Number of other<br>departures agreed |            | (d)<br>Total number of exit<br>packages by cost<br>band [(b) + (c)] |            | (e)<br>Total cost of exit<br>packages in each<br>band |              |
|--|--|-----------|---|------------|---|------------|---|--------------|
|  | 2014-15  | 2015-16   | 2014-15                                     | 2015-16    | 2014-15   | 2015-16    | 2014-15   | 2015-16      |
|  |  |           |   |            |   |            | £000  | £000         |
| £0 - £20,000   | 158  | 30        | 50  | 80         | 208   | 110        | 1,490   | 978          |
| £20,001 - £40,000  | 16   | 3         | 38  | 40         | 54  | 43         | 1,516   | 1,275        |
| £40,001 - £60,000  | 2  | 1         | 13  | 20         | 15  | 21         | 685   | 1,000        |
| £60,001 - £80,000  | -  | 1         | 5   | 11         | 5   | 12         | 335   | 874          |
| £80,001 - £100,000   | -  | -         | 3   | 10         | 3   | 10         | 266   | 910          |
| £100,001 - £150,000  | 1  | 1         | 1   | 15         | 2   | 16         | 216   | 1,928        |
| £150,001 - £250,000  | -  | -         | 1   | 4          | 1   | 4          | 159   | 799          |
| <b>Total</b>   | <b>177</b>                                     | <b>36</b> | <b>111</b>                                  | <b>180</b> | <b>288</b>  | <b>216</b> | <b>4,667</b>  | <b>7,764</b> |

### 35. 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 statutory inspections and to non-audit services provided by the Council's external auditors. The appointed auditor for 2014/15 and 2015/16 is Mazars LLP.

| 2014-15<br>£000   | 2015-16<br>£000 |
|---|-----------------|
| 333 Fees payable with regard to external audit services carried out by the appointed auditor for the year | 251             |
| 31 Fees payable in the year for the certification of grant claims and returns by the appointed auditor    | 20              |
| <b>364 Total</b>  | <b>271</b>      |

### 36. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education; the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. 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 maintained school.

Details of the deployment of DSG receivable for 2015/16 are as follows:

|   | <b>Central<br/>Expenditure<br/>£000</b> | <b>ISB<br/>£000</b> | <b>Total<br/>£000</b> |
|---|---|---------------------|-----------------------|
| A Final DSG for 2015/16 before Academy Recoupment |   |                     | 356,636               |
| B Academy figure recouped for 2015/16             |   |                     | 74,623                |
| C Total DSG after Academy Recoupment for 2015/16  |   |                     | 282,013               |
| Plus  |   |                     |                       |
| D Brought forward from 2014/15                    |   |                     | 10,557                |
| Less  |   |                     |                       |
| E Carry forward to 2016/17 agreed in advance      |   |                     | 10,557                |
| F Agreed initial budgeted distribution in 2015/16 | 35,573                                  | 246,440             | 282,013               |
| G In year adjustments                             | -14,035                                 | 14,035              | -                     |
| H Final budgeted distribution for 2015/16         | 21,538                                  | 260,475             | 282,013               |
| Less  |   |                     |                       |
| I Actual central expenditure                      | 21,070                                  |                     | 21,070                |
| Less  |   |                     |                       |
| J Actual ISB deployed to schools                  |   | 259,315             | 259,315               |
| Plus  |   |                     |                       |
| K Local authority contribution for 2015/16        | -                                       | -                   | -                     |
| L Carry forward to 2016/17                        | 468                                     | 1,160               | 12,185 *              |

\* Total carry-forward (£12.185m) is the carry forward on central expenditure (L) (£0.468m) plus carry forward on ISB (L) (£1.160m) plus carry forward 2016/17 already agreed (E) (£10.557m).

A: Final DSG figure before any amount has been recouped from the Council excluding the January 2016 early years block adjustment.

B: Figure recouped from the Council in 2015/16 by the DfE for the conversion of maintained schools into Academies.

C: Total figure after EFA Academy recoupment for 2015/16.

D: Figure brought forward from 2014/15 as agreed with the Department.

E: Any amount which the Council decided after consultation with the Schools Forum to carry forward to 2016/17 rather than distribute in 2015/16 – this may be the difference between estimated and final DSG for 2015/16, or a figure (positive or negative) brought forward from 2014/15 which the authority is carrying forward again.

F: Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the Schools Forum.

G: Changes to the initial distribution, for example, adjustments for exclusions or final early years block adjustment.

H: Budgeted distribution of DSG as at the end of the financial year.

I: Actual amount of central expenditure items in 2015/16.

J: Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the Council once it is deployed to schools' budget shares).

K: Any contribution from the local authority in 2015/16 which will have the effect of substituting for DSG in funding the Schools Budget.

L: Carry forward to 2016/17:

- For central expenditure, difference between final budgeted distribution of DSG (H) and actual expenditure (I), plus any local authority contribution (K).
- For ISB, difference between final budgeted distribution (H) and amount actually deployed to schools (J) plus any local authority contribution (K).
- Total is carry-forward on central expenditure (L) less carry forward on ISB (L) plus carry forward 2016/17 already agreed (E).

£0.279m of the DSG has been used to fund capital expenditure in schools. This expenditure is not included in the net cost of Children's and Education Services as it is not a proper charge to the Comprehensive Income and Expenditure Statement. The expenditure forms part of the Movement in Reserves Statement.

### 37. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16:

| 2014-15<br>£000 |  | 2015-16<br>£000 |
|-----------------|--|-----------------|
|                 | <b>Credited to Taxation and Non Specific Grant Income:</b> |                 |
|                 | Non Ring-fenced Government Grants:                         |                 |
| -138,710        | - Revenue Support Grant                                    | -100,240        |
| -59,357         | - Top Up Grant   | -60,491         |
| -4,386          | - Section 31 Grants  | -5,173          |
| -7,531          | - Education Funding Agency Grant                           | -6,006          |
| -6,783          | - New Homes Bonus Scheme Grant                             | -8,323          |
| -381            | - New Homes Bonus Scheme Topslice Reimbursement            | -374            |
| -65,602         | Capital Grants and Contributions                           | -36,432         |
|                 | - Government Grant in respect of Housing Stock Transfer    | -207,035        |
| -282,750        |  | -424,074        |

## Grant and Contribution Income Credited to Services

| 2014-15<br>£000 |  | 2015-16<br>£000 |
|-----------------|--|-----------------|
|                 | <b>Credited to Services:</b>                   |                 |
| -435            | Adoption Reform Grant                          | -               |
| -568            | Arts Council Eng - NE                          | -550            |
| -33             | Arts Projects                                  | -170            |
| -51             | Asylum Seekers Grant                           | -43             |
| -               | Clinical Commissioning Groups-Better Care Fund | -39,193         |
| -359            | Darlington Borough Council                     | -379            |
| -2,544          | DCSF Grant                                     | -2,605          |
| -281,273        | Dedicated Schools Grant (DSG)                  | -282,206        |
| -306            | DEFRA Grant                                    | -309            |
| -250            | Department of Health Grant                     | -897            |
| -2,973          | Department for Transport Grant                 | -5,508          |
| -1,096          | Discretionary Housing Payment Grant            | -982            |
| -512            | Durham Police and Crime Commissioner           | -514            |
| -               | Early Years Single Funding Formula Grant       | -773            |
| -276            | Education Authorities-other                    | -321            |
| -9,525          | Education Funding Agency                       | -9,681          |
| -445            | Educational Visits                             | -534            |
| -48             | ERDF Grant                                     | -32             |
| -               | Growth Fund Grant                              | -1,971          |
| -1,197          | Heritage Lottery Fund Grant                    | -1,095          |
| -3,211          | Housing Benefit - Admin Grant                  | -2,900          |
| -148,136        | Housing Benefit Grant - Rent Allowance         | -175,072        |
| -41,479         | Housing Benefit Grant - Rent Rebate            | -575            |
| -880            | LCTSS - Administration Grant                   | -874            |
| -156            | Natural England                                | -137            |
| -18,616         | NHS - Care Costs                               | -6,573          |
| -610            | NHS - Integrated Services                      | -417            |
| -5,890          | NHS - Joint Arrangements                       | -2,155          |
| -600            | NNDR Cost of Collection Allowance              | -601            |
| -               | North East Combined Authority                  | -16,076         |
| -813            | Other Local Authorities                        | -756            |
| -190            | PCT's  | -               |
| -5,261          | PFI Grants                                     | -5,519          |
| -46             | Probation Service                              | -48             |
| -45,780         | Public Health Grant                            | -47,538         |
| -21,595         | Pupil Premium Grant                            | -911            |
| -2,527          | Skills Funding Agency                          | -2,672          |
| -72             | Sports Council Grant                           | -79             |
| -390            | Supporting People 18 to 21                     | -               |
| -               | Transformation Challenge Award Grant           | -1,400          |
| -2              | TSI  | -               |
| -1,900          | Welfare Assistance Programme Funding           | -               |
| -33             | Youth Justice Grant                            | -               |
| -7              | Youth Music Grant                              | -9              |
| -815            | Youth Offending Teams Grant                    | -691            |
| -22,628         | Other Grants and Contributions                 | -27,667         |
| <u>-623,528</u> |  | <u>-640,433</u> |

## Capital Grants and Contributions Receipt in Advance

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

| <u>2014-15</u>  |                                |   | <u>2015-16</u>                |                                |
|---|--------------------------------|---|-------------------------------|--------------------------------|
| Long Term<br>Liabilities £000                               | Short Term<br>Liabilities £000 |   | Long Term<br>Liabilities £000 | Short Term<br>Liabilities £000 |
| <b>Capital Grants and Contributions Receipts in Advance</b> |                                |   |                               |                                |
| -   | -6                             | Broadband Delivery UK   | -                             | -91                            |
| -   | -133                           | CLG - Disabled Facilities Grant                                   | -                             | -                              |
| -   | -418                           | CLG - Empty Homes Cluster   | -                             | -                              |
| -   | -196                           | CLG - Netpark   | -                             | -                              |
| -   | -724                           | Department for Transport - Highways                               | -                             | -408                           |
| -   | -402                           | Department for Transport - Integrated Transport                   | -                             | -                              |
| -   | -3,152                         | Education Funding Agency  | -                             | -146                           |
| -   | -4                             | English Heritage  | -                             | -                              |
| -   | -706                           | Environment Agency  | -                             | -90                            |
| -   | -256                           | Five Lamps Organisation   | -                             | -                              |
| -   | -                              | Heritage Lottery Fund Grant - Wharton Park                        | -                             | -55                            |
| -   | -25                            | Living Streets  | -                             | -25                            |
| -   | -                              | North East Combined Authority                                     | -                             | -498                           |
| -   | -200                           | Public Health England   | -                             | -200                           |
| -   | -                              | Sunderland City Council   | -                             | -126                           |
| -202  | -176                           | Sustrans  | -                             | -307                           |
| -201  | -231                           | Other   | -                             | -2,388                         |
| <u>-403</u>   | <u>-6,629</u>                  | <b>Total Capital Grants and Contributions Receipts in Advance</b> | <u>-</u>                      | <u>-4,334</u>                  |

### **38. 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).

#### **Members**

Members of the County Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2015/16 is shown in Note 33.

It is the nature of local government that the majority of members and sometimes a close family member are involved in the local community through various organisations such as voluntary bodies, youth groups and community associations as well as holding positions such as school governors or being a member of a Local Parish or Town Council. Details of all these organisations are recorded in the Register of Members' Interest, open to public inspection at County Hall during office hours. Following a review of the declarations made by members, it was established that there were no material transactions.

The local environmental projects, youth groups and community associations, in which members are involved, received grant funding to the value of £0.318m in 2015/16 (£0.306m in 2014/15). In all instances, the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Members are also involved in:

- the Citizen Advice Bureau (CAB) delivering advice services across the county, which received financial support to the value of £0.725m in 2015/16 (£0.749m in 2014/15 – Restated)
- VISIT County Durham, the tourism management board for County Durham for which there were transactions to the value of £0.027m in 2015/16 (£0.059m in 2014/15) with the Council.
- County Durham Community Foundation provides grants that make a genuine difference to the lives of local people, received £0.024m in 2015/16 (£0.128m in 2014/15).

- Groundwork North East, carrying out environmental works for which there were transactions of £0.339m in 2015/16 (£0.287m in 2014/15).
- Durham Community Action, formerly Durham Rural Community Council, providing support to communities throughout County Durham £0.353m in 2015/16 (£0.299m in 2014/15)
- Consett YMCA for work done with various schools including the Pupil Referral Unit £0.113m in 2015/16 (£0.108m in 2014/15)
- The Bowes Museum for services to schools £0.311m in 2015/16 (£0.329m in 2014/15)
- Leisureworks £1.927m in 2015/16 (£2.294m in 2014/15)
- Glebe Centre £0.029m in 2015/16 (£0.034m in 2014/15 - Restated)

During 2015/16, works and services to the value of £0.041m (£0.045m in 2014/15) were commissioned from companies in which some members had an interest. Contracts were entered into in full compliance with the Council's Standing Orders.

### Chief Officers

Chief Officers of the Council are also required to complete a Related Party Declaration. It should be noted that the following declarations have been made:

| Chief Officer  | Related party declaration  |
|--|--|
| Chief Executive  | Director of Durham Regatta   |
| Corporate Director - Regeneration and Economic Development | Director of North East Enterprise Company Limited<br>Director of VISIT County Durham<br>Director of Durham Villages Regeneration Limited |
| Assistant Chief Executive                                  | County Durham Community Foundation - Trustee   |

No further declarations were identified.

### Entities Controlled or Significantly Influenced by the Council

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

#### Dale and Valley Homes Limited

Dale and Valley Homes Limited was established as an Arm's Length Management Organisation by Wear Valley District Council on 1 April 2006 to carry out the management and maintenance of council houses. As from 13 April 2015, Dale and Valley Homes Limited became part of County Durham Housing Group Limited.

#### East Durham Homes Limited

East Durham Homes Limited was created as an Arm's Length Management Organisation in April 2004 to carry out the housing management and maintenance functions on behalf of

Easington District Council. As from 13 April 2015, East Durham Homes Limited became part of County Durham Housing Group Limited.

### **Chapter Homes**

Chapter Homes Durham Limited was established as a private company limited by shares on 10 August 2015 and is owned 100% by Durham County Council. The Company has been established as a trading company to develop Council owned land for market housing sale and private market rent to generate revenue income, capital receipts and contribute to housing regeneration in County Durham. Construction work commenced in January 2016 on the first pilot site at Newton Aycliffe for the development of up to 125 homes. The statement of accounts for the period ending 31 March 2016 are currently being prepared.

### **Forrest Park (Newton Aycliffe) Limited**

This is a joint venture arrangement of which the Council owns 51% of the share capital of the Company. The Company has been established to develop Forrest Park as a prime location for manufacturing, logistics and administration. The aims of the Company will be to develop the site and maximise economic benefits from the commercial developments. The Company was established on 31 March 2016 and its first statement of accounts are due for the period ending 31 March 2017.

### **Central Durham Crematorium**

The Central Durham Crematorium was built in 1960 and is overseen by the Central Durham Crematorium Joint Committee, comprising Durham County Council and Spennymoor Town Council. The net assets of the crematorium at 31 March 2016 are £3.161m (31 March 2015: £3.207m). Durham County Council is the administrative body and employing authority for the crematorium.

It should be noted that the Central Durham Crematorium Joint Committees Return is still subject to external audit and copies can be obtained from the Registered Office at County Hall, Durham, DH1 5UT, or alternatively accessed via the DCC website.

### **Mountsett Crematorium**

The Mountsett Crematorium was built in 1964 and is overseen by the Mountsett Crematorium Joint Committee, comprising Durham County Council and Gateshead Council. The net assets of the crematorium at 31 March 2016 are £1.243m (31 March 2015: £0.962m). Durham County Council is the administrative body and employing authority for the crematorium.

It should be noted that the Mountsett Crematorium Joint Committees Return is still subject to external audit and copies can be obtained from the Registered Office at County Hall, Durham, DH1 5UT, or alternatively accessed via the DCC website.



**Service Direct NewCo Limited**

Service Direct NewCo Limited is a Local Authority Trading Company established to provide services to non local authority customers initially focused around building maintenance, civil engineering, grounds maintenance, vehicle fleet services and domestic services. Durham County Council owns 100% of NewCo, which began trading in 2007/08.

**NIAL Holdings Limited**

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4<sup>th</sup> May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16<sup>th</sup> November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council holds a 12.15% interest in NALAHCL, valued at £10.558m. The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last valuation is based on the sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred during 2015/16 the valuation has remained unchanged.

Through its shares in NALAHCL the Council has an effective shareholding of 6.20% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. No dividend was received for the year ended 31 December 2015 (nil for the year ended 31 December 2014).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes. The loan notes will be repayable in 2032 with interest being received up to that date on a 6 monthly basis. Otherwise there are no outstanding balances owed to or from NIAL at the end of the year.

NIAL Group Limited made a profit before tax of £2.300m and a profit after tax of £4.556m for the year ended 31<sup>st</sup> December 2015. In the previous year, the Group made a profit before tax of £0.496m and a profit after tax of £0.277m.

**Durham Tees Valley Airport Limited**

The former Teesside Airport Limited became a limited company under the Airports Act 1986. In consideration of the transfer of the property, rights, liabilities and functions, the former constituent authorities received share allocations. The Council received £7.600m (40%) of the issued share capital. With effect from 1 April 2003, 75% of the total

shareholding in the now renamed Durham Tees Valley Airport Limited was acquired by Peel Airports Limited. The Council now holds 1.45% of the total shareholding in Peel Airports Limited. For the year ended 31 March 2015, Durham Tees Valley Airport Limited made an operating loss of £2.104m (loss of £4.075m for year ended 31 March 2014) and a loss of £1.262m after taxation (loss of £3.900m for year ended 31 March 2014). The Company accounts for 2015/16 are not yet available.

Further information regarding the Company's accounts can be obtained from its Registered Office at Durham Tees Valley Airport Limited, Darlington, DL2 1LU

### **Beamish Museum Companies**

The Joint Committee was responsible for the assets of the Museum and made all decisions on capital schemes and procuring grants for capital development. However, the Joint Committee was dissolved with effect from 1 April 2014, in accordance with the agreed recommendations made by the Joint Committee at its final meeting held on 28th March 2014. The main impact from this saw the Joint Committee's net assets transfer to Beamish Museum (BM) on 1 April 2014. Beamish Museum was established in 1970 and the Council has been a constituent member Authority of Beamish North of England Open Air Museum since its inception. The Council made a contribution of £18,000 towards the running costs of the Museum in 2015/16 (£18,000 in 2014/15).

Beamish Museum (BM) is a charitable company limited by guarantee and is responsible for capital development and the management and operation of the Museum. Beamish Museum Trading Limited (BMTL), a subsidiary of BM, manages all of the retailing and catering operations of the Museum. In the draft accounts for 2015/16, the BM and BMTL group made an operating loss of £0.438m. The restated figures for 2014/15 showed an operating profit of £23.524m (£0.664m profit excluding £22.860m of assets transfer). The group had net assets of £21.906m (2014/15 restated net assets of £21.837m). The Council receives no income or contributions from the above reported arrangements.

Copies of the BM Group Accounts can be obtained from the Museum Director, Regional Resource Centre, Beamish Museum, County Durham, DH9 0RG

### **Durham County Council Pension Fund**

Durham County Council administers the Durham County Council Pension Fund on behalf of 116 bodies, including borough, parish and town councils, colleges, academy schools, statutory bodies and admitted bodies. During 2015/16, the Pension Fund had an average balance of £51.288m (£35.929m in 2014/15) of surplus cash deposited with the Council. In 2015/16 the Council paid the fund a total of £0.223m (£0.155m in 2014/15) in interest on these deposits.

### 39. 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.

| 2014-15<br>£000 |   | 2015-16<br>£000 |
|-----------------|---|-----------------|
| 607,260         | <b>Opening Capital Financing Requirement</b>  | 636,459         |
|                 | Capital investment:   |                 |
| 140,510         | Property, Plant and Equipment   | 83,179          |
| 2,172           | Property, Plant and Equipment - Finance Leases  | 5,298           |
| 536             | Intangible Assets   | 274             |
| -               | - Investment Properties   | -               |
| -               | - Acquisition of share capital  | 1,750           |
| 18,993          | Revenue Expenditure Funded from Capital under Statute   | 30,218          |
|                 | Sources of finance:   |                 |
| -12,976         | Capital receipts  | -10,260         |
| -               | - Capital receipts to repay debt (stock transfer)   | -114,400        |
| -               | - Overhanging debt grant (stock transfer)   | -129,600        |
| -75,389         | Government grants and other contributions   | -52,172         |
| -7,468          | Major Repairs Allowance   | -               |
|                 | Sums set aside from revenue:  |                 |
| -21,581         | - Direct revenue financing  | -23,770         |
| -15,730         | - Minimum Revenue Provision   | -16,569         |
|                 | Adjustment to Capital Financing Requirement:  |                 |
| 132             | Housing Revenue Account non-dwelling revaluation/impairment losses                                | -               |
| 636,459         | <b>Closing Capital Financing Requirement</b>  | 410,407         |
|                 | <b>Explanation of movements in year</b>   |                 |
| -10,220         | Increase/(decrease) in underlying need to borrow (supported by government financial assistance)   | -9,812          |
| 37,247          | Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance) | -221,538        |
| 2,172           | Assets acquired under finance leases  | 5,298           |
| 29,199          | <b>Increase/(decrease) in Capital Financing Requirement</b>                                       | -226,052        |

## 40. Leases

### Council as Lessee

#### Finance leases

The Council has acquired a number of operational vehicles and equipment under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

| 31 March 2015<br>£000 |  | 31 March 2016<br>£000 |
|-----------------------|--|-----------------------|
|                       | - Other Land and Buildings               | -                     |
| 8,308                 | Vehicles, Plant, Furniture and Equipment | 10,926                |
| 8,308                 |  | 10,926                |
| 8,308                 |  | 10,926                |

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the assets acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding.

The minimum lease payments are made up of the following amounts:

| 31 March 2015<br>£000 |  | 31 March 2016<br>£000 |
|-----------------------|--|-----------------------|
|                       | Finance lease liabilities (net present value of minimum lease payments): |                       |
| 2,389                 | Current  | 2,833                 |
| 3,916                 | Non-Current  | 5,411                 |
| 458                   | Finance costs payable in future years                                    | 618                   |
| 6,763                 | <b>Minimum lease payments</b>  | 8,862                 |
| 6,763                 |  | 8,862                 |

The minimum lease payments will be payable over the following periods:

| 31 March 2015                        |                                      |   | 31 March 2016                        |                                      |
|--------------------------------------|--------------------------------------|---|--------------------------------------|--------------------------------------|
| Minimum<br>Lease<br>Payments<br>£000 | Finance Lease<br>Liabilities<br>£000 |   | Minimum<br>Lease<br>Payments<br>£000 | Finance Lease<br>Liabilities<br>£000 |
| 2,624                                | 2,389                                | Not later than one year                           | 3,091                                | 2,833                                |
| 4,087                                | 3,850                                | Later than one year and not later than five years | 5,586                                | 5,232                                |
| 52                                   | 66                                   | Later than five years                             | 185                                  | 179                                  |
| 6,763                                | 6,305                                |   | 8,862                                | 8,244                                |
| 6,763                                | 6,305                                |   | 8,862                                | 8,244                                |

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

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

### *Operating Leases*

The Council has acquired a number of administrative buildings by entering into operating leases, with typical lives of five years. The future minimum lease payments due under non-cancellable leases in future years are:

| <b>31 March 2015</b> |   | <b>31 March 2016</b> |
|----------------------|---|----------------------|
| <b>£000</b>          |   | <b>£000</b>          |
| 653                  | Not later than one year                           | 998                  |
| 2,298                | Later than one year and not later than five years | 2,693                |
| 4,097                | Later than five years                             | 3,723                |
| 7,048                |   | 7,414                |
| 7,048                |   | 7,414                |

Where assets acquired under operating leases are sub-let, disclosure is required of the future minimum sublease payments expected to be received by the Council, per paragraph 4.2.4.2(7) of the Code.

| <b>31 March 2015</b> |                              | <b>31 March 2016</b> |
|----------------------|------------------------------|----------------------|
| <b>£000</b>          |                              | <b>£000</b>          |
| 154                  | Minimum lease payments       | 1,806                |
| -630                 | Sublease payments receivable | -2,406               |
| -476                 |                              | -600                 |
| -476                 |                              | -600                 |

### **Council as Lessor**

#### *Finance Leases*

There are no finance leases in respect of property, plant and equipment where the Council is the lessor.

#### *Operating leases*

The Council leases out property and equipment under operating leases for the following purposes:

- for the provision of community services, such as child care and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses.

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

| <b>31 March 2015</b> |   | <b>31 March 2016</b> |
|----------------------|---|----------------------|
| <b>£000</b>          |   | <b>£000</b>          |
| 2,851                | Not later than one year                           | 2,813                |
| 4,137                | Later than one year and not later than five years | 4,738                |
| 6,523                | Later than five years                             | 7,414                |
| <u>13,511</u>        |   | <u>14,965</u>        |

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

In 2015/16 no rents were received by the authority in respect of contingent rents (2014/15 Nil).

#### **41. Private Finance Initiatives and Similar Contracts**

##### **Schools**

In 2009/10, the Council signed a Private Finance Initiative contract for the provision of three sets of new school buildings. The schools are:

- Sedgefield Community College (Design Capacity = 850 pupils)
- Shotton Hall School (Design Capacity = 1,000 pupils)
- Shotton Hall Primary School (Design Capacity = 350 pupils)

Sedgefield and Shotton Hall Schools are part of the Building Schools for the Future programme. Shotton Hall Primary is located on the same site as Shotton Hall School and received funding through the Primary Capital Programme.

The contract is for the design, construction and finance of the new school buildings and their maintenance for 25 years after commencement of operations. The contract runs over two phases - construction and operational.

The operational phase starts when the buildings are released for use by the schools. For Shotton Hall Primary the operational phase started on 6 September 2010 and for Sedgefield Community College and Shotton Hall School the operational phases started on 4 January 2011. The operational phase for all schools will end on 3 January 2036, which marks the end of the contract, at which point the contractor is required to handover the buildings to the Council in a good state of repair and at nil cost.

Shotton Hall School became an Academy on 1 February 2011. The Council has granted the Academy lease of the land and buildings at a peppercorn rent for 125 years. The PFI contract remains with the Council and the Academy has signed an agreement with the Council to cover the operation of the contract as it affects the Academy and the Academy contributions to meeting the costs of the contract.

During the operational phase the contractor is responsible for the following services:

- Buildings and Grounds Maintenance
- Caretaking
- Cleaning
- Energy and Utilities

The contractor is not responsible for the provision of education services or governance and management of the schools, which remain the responsibility of their governing bodies and staff.

In return for providing school buildings the contractor receives monthly payments from the Council during the operational phase. These payments can be reduced where the buildings are not provided to the standard defined in the contract.

The Council's Balance Sheet includes both assets and liabilities arising from the contract.

### Value of Assets

| 31 March 2015<br>£000<br>(restated) |                            | 31 March 2016<br>£000 |
|-------------------------------------|----------------------------|-----------------------|
| 14,451                              | Net book value at 1 April  | 18,516                |
| 471                                 | Additions                  | -                     |
| -426                                | Depreciation               | -404                  |
| 4,020                               | Revaluations               | -                     |
| <u>18,516</u>                       | Net book value at 31 March | <u>18,112</u>         |

In addition to the net book value of £18.112m in respect of the PFI assets, the balance sheet also includes the value of the land on which the schools are built. The value of the land is £1.998m and the total net value of land and buildings for these schools carried forward is £20.110m.

## Value of Liabilities

The assets included in the Balance Sheet are offset by a liability equal to the initial value of the assets financed by contractor. This liability is written-down over the life of the contract by charging part of the annual payments to the contractor against the liability.

Movements in the values in 2015/16 are summarised below:

| 31 March 2015<br>£000 |   | 31 March 2016<br>£000 |
|-----------------------|---|-----------------------|
| 42,604                | <b>Balance outstanding at start of year</b> | 41,860                |
| -744                  | Payments during the year                    | -800                  |
| <u>41,860</u>         | <b>Balance outstanding at year-end</b>      | <u>41,060</u>         |

## Estimates of Future Payments Due

|  | Payments for<br>Services<br>£000 | Reimbursement<br>of Capital<br>Expenditure<br>£000 | Interest<br>£000 | Total<br>£000  |
|--|----------------------------------|--|------------------|----------------|
| Payable in 2016-17                     | 2,225                            | 929  | 4,166            | 7,320          |
| Payable within two to five years       | 10,215                           | 4,018  | 15,690           | 29,923         |
| Payable within six to ten years        | 14,360                           | 7,724  | 16,900           | 38,984         |
| Payable within eleven to fifteen years | 17,290                           | 11,452   | 12,214           | 40,956         |
| Payable within sixteen to twenty years | 18,749                           | 16,936   | 5,379            | 41,064         |
| <b>Total</b>                           | <u>62,839</u>                    | <u>41,059</u>                                      | <u>54,349</u>    | <u>158,247</u> |

Contract payments are partially linked to inflation as measured by the RPIX index (all items excluding Mortgage Interest Payments). These estimates assume that after 2015/16 RPIX increases at 2.5% a year for the remainder of the contract.

Other reasons why costs might vary significantly in future years are:

- The provision of facilities management (FM) services is subject to benchmarking and / or market testing every five years. Payments to the contractor will be adjusted to reflect the outcome of these exercises, which could reduce or increase costs.
- Once PFI contracts are operational it is sometimes possible to 're-finance' the contract which reduces the cost of borrowing incurred by the contractor. The contractor provides for the Council to receive some of the savings arising from re-financing. Re-financing is only possible if market conditions allow. The Council has not been informed by the contractor of any plans for re-financing.



## 42. Impairment and Revaluation Losses

The value of the Council's assets has been reduced by £67.416m in 2015/16, charged partly to services in the Comprehensive Income and Expenditure Statement (CIES) and partly to the Revaluation Reserve. This reduction includes both the consumption of economic benefits and also revaluation losses due to the downturn in the economy as well as the on-going review of the Council's asset base since Local Government Reorganisation in 2009/10.

## 43. Termination Benefits

The authority terminated the contracts of a number of employees in 2015/16. The value of the redundancy payments charged to services in 2015/16 was £4.349m and in 2014/15 was £4.571m. The table below analyses the payments made in the relevant financial years. The majority of the payments made in 2015/16 were due to the rationalisation of services within the Authority.

| 2014-15<br>£000 |   | 2015-16<br>£000 |
|-----------------|---|-----------------|
| 1,110           | Children's and Education Services                         | 1,007           |
| 1,543           | Adult Social Care   | 1,359           |
| 237             | Highways and Transport Services                           | 146             |
| 123             | Planning Services   | 160             |
| 271             | Cultural and Related Services                             | 484             |
| 218             | Environmental and Regulatory Services                     | 70              |
| 381             | Other Housing Services (including Supporting People)      | 41              |
| 60              | Public Health   | -               |
| 53              | Corporate and Democratic Core                             | -               |
| 481             | Central Services to the Public                            | 1,071           |
| 94              | Financing and Investment Income and Expenditure (Trading) | 11              |
| 4,571           | <b>Total</b>  | 4,349           |

In addition to the above redundancy payments, the pension enhancement value in 2015/16 was £3.953m and in 2014/15 was £1.153m.

## 44. Pension Schemes Accounted for as Defined Contribution Schemes

### Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Business Services Limited. 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 2015/16, the Council paid £18.408m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay from 1 April to 31 August 2015 and 16.48% of pensionable pay from 1 September 2015 (£16.858m and 14.1% in 2014/15). 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. The costs are accounted for on a defined benefit basis and detailed in Note 45.

### **NHS Pension Scheme**

NHS Staff who transferred to the Council in 2013/14 have maintained their membership in the NHS Pension Scheme, administered by the NHS Business Services Authority. The Scheme provides these staff 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 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. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2015/16, the Council paid £0.148m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.3% of pensionable pay (£0.171m and 14.0% in 2014/15). There were no contributions remaining payable at the year end.

## **45. 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 for those benefits and to disclose them at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme (LGPS), administered locally by Durham County Council – this is a funded defined benefit final salary scheme, meaning that the

Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- Arrangements 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.

The Durham County Council Pension Fund is operated under the regulatory framework for the LGPS and responsibility for the Pension Fund has been delegated from Durham County Council to the Pension Fund Committee. The Corporate Director Resources has a statutory duty to ensure the Pension Fund remains solvent and is administered effectively, adhering to the LGPS regulations in order to meet any current and future liabilities. The Pension Fund has seven investment managers who are appointed by the committee to invest the Fund's assets in compliance with constraints imposed by the Fund's Statement of Investment Principles and in compliance with applicable legislation. Further information on Durham County Council's Pension Fund can be found in the Pension Fund Accounts later in this document.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

### **Discretionary Post-retirement Benefits**

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

### **Transactions Relating to Post-employment Benefits**

The Council recognises 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 the Council is 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:

| 2014-15                                 |   |  | 2015-16                                 |   |  |
|---|---|--|---|---|--|
| Local Government Pension Scheme<br>£000 | Discretionary Benefits Arrangements<br>£000 |  | Local Government Pension Scheme<br>£000 | Discretionary Benefits Arrangements<br>£000 |  |
|   |   | Cost of services:  |   |   |  |
|   |   | Service cost comprising:   |   |   |  |
| 41,310                                  | -   | - Current service cost   | 48,706                                  | -   |  |
| 3,140                                   | 10  | - Past service cost (including curtailments)   | 3,810                                   | -   |  |
|   |   | Financing and Investment Income and Expenditure:   |   |   |  |
| 2,610                                   | -   | - Current service cost   | 2,414                                   | -   |  |
| 30,090                                  | 3,070                                       | - Net interest on net defined benefit liability  | 26,650                                  | 2,270                                       |  |
| 77,150                                  | 3,080                                       | Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services   | 81,580                                  | 2,270                                       |  |
|   |   | Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:   |   |   |  |
|   |   | Remeasurement of the net defined benefit liability comprising:   |   |   |  |
| -93,820                                 | -   | - Return on plan assets (excluding the amount included in the net interest expense)  | 60,960                                  | -   |  |
| 218,830                                 | 4,810                                       | - Actuarial gains and losses due to changes in financial assumptions   | -90,200                                 | -1,760                                      |  |
| -13,390                                 | -2,050                                      | - Actuarial gains and losses due to liability experience   | -22,200                                 | -1,280                                      |  |
| 188,770                                 | 5,840                                       | Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement  | 30,140                                  | -770  |  |
|   |   | <b>Movement in Reserves Statement</b>  |   |   |  |
| -77,150                                 | -3,080                                      | Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code | -81,580                                 | -2,270                                      |  |
|   |   | Actual amount charged against the General Fund Balance for pensions in the year:   |   |   |  |
| 55,163                                  | -   | - Employer's contributions payable to the scheme   | 56,096                                  | -   |  |
| -                                       | 5,876                                       | - Direct retirement benefits payable to pensioners   | -                                       | 5,679                                       |  |

## Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

| 2014-15   |   |  | 2015-16   |   |  |
|---|---|--|---|---|--|
| Funded Liabilities:<br>Local Government<br>Pension Scheme<br>£000 | Unfunded Liabilities:<br>Discretionary Benefits<br>Arrangements<br>£000 |  | Funded Liabilities:<br>Local Government<br>Pension Scheme<br>£000 | Unfunded Liabilities:<br>Discretionary Benefits<br>Arrangements<br>£000 |  |
| -2,455,280  | -75,970   | Present value of the defined benefit obligation                | -2,402,560  | -69,590   |  |
| 1,594,560   | -   | Fair value of plan assets                                      | 1,568,010   | -   |  |
| -860,720  | -75,970   | <b>Net liability arising from defined benefit obligation</b>   | -834,550  | -69,590   |  |
| 233   | 156   | Difference between actuaries' figures and actual contributions | -215  | 69  |  |
| <b>-860,487</b>   | <b>-75,814</b>  | <b>Adjusted Total *</b>  | <b>-834,765</b>   | <b>-69,521</b>  |  |

\* To produce a more accurate assessment of the Council's IAS 19 liability the adjusted total line shows the Net Liabilities per the actuaries' figures adjusted for actual contributions made to the scheme.

## Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

| 2014-15   |   |  | 2015-16   |   |  |
|---|---|--|---|---|--|
| Funded Liabilities:<br>Local Government<br>Pension Scheme<br>£000 | Unfunded Liabilities:<br>Discretionary Benefits<br>Arrangements<br>£000 |  | Funded Liabilities:<br>Local Government<br>Pension Scheme<br>£000 | Unfunded Liabilities:<br>Discretionary Benefits<br>Arrangements<br>£000 |  |
| 1,452,460   | -   | <b>Opening fair value of scheme assets</b>   | 1,594,560   | -   |  |
| 62,180  | -   | Interest Income                              | 50,780  | -   |  |
| 93,820  | -   | Remeasurement gain/loss (-)                  | -60,960   | -   |  |
| 54,930  | 5,720   | Contributions from employer                  | 56,310  | 5,610   |  |
| 14,090  | -   | Contributions from employees into the scheme | 14,050  | -   |  |
| -82,920   | -5,720  | Benefits paid                                | -86,730   | -5,610  |  |
| <b>1,594,560</b>  | <b>-</b>  | <b>Closing fair value of scheme assets</b>   | <b>1,568,010</b>  | <b>-</b>  |  |

## Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

| 2014-15   |   |  | 2015-16   |   |  |
|---|---|--|---|---|--|
| Funded Liabilities:<br>Local Government<br>Pension Scheme<br>£000 | Unfunded Liabilities:<br>Discretionary Benefits<br>Arrangements<br>£000 |  | Funded Liabilities:<br>Local Government<br>Pension Scheme<br>£000 | Unfunded Liabilities:<br>Discretionary Benefits<br>Arrangements<br>£000 |  |
| 2,179,340   | 75,850  | <b>Opening balance at 1 April</b>                                  | 2,455,280   | 75,970  |  |
| 43,920  | -   | Current service cost   | 51,120  | -   |  |
| 92,270  | 3,070   | Interest cost  | 77,430  | 2,270   |  |
| 14,090  | -   | Contributions by scheme participants                               | 14,050  | -   |  |
|   |   | Remeasurement gains (-) and losses:                                |   |   |  |
| 218,830   | 4,810   | Actuarial gains and losses due to changes in financial assumptions | -90,200   | -1,760  |  |
| -13,390   | -2,050  | Actuarial gains and losses due to liability                        | -22,200   | -1,280  |  |
| 3,140   | 10  | Past service cost (including curtailments)                         | 3,810   | -   |  |
| -82,920   | -5,720  | Benefits paid  | -86,730   | -5,610  |  |
| <u>2,455,280</u>  | <u>75,970</u>   | <b>Closing balance at 31 March</b>                                 | <u>2,402,560</u>  | <u>69,590</u>   |  |

### Local Government 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:

| 31 March 2015                                     |                |                  | 31 March 2016                       |                  |                |                  |
|---|----------------|------------------|-------------------------------------|------------------|----------------|------------------|
| Fair Value of scheme assets<br>£000<br>(restated) |                |                  | Fair Value of scheme assets<br>£000 |                  |                |                  |
| Quoted  | Unquoted       | Total            | Quoted                              | Unquoted         | Total          |                  |
| 696,823   | -              | 696,823          | Equity investments                  | 639,748          | -              | 639,748          |
| 22,324  | 74,944         | 97,268           | Property                            | 20,384           | 105,057        | 125,441          |
| 405,018   | 94,079         | 499,097          | Government bonds                    | 407,683          | 94,081         | 501,764          |
| -   | 148,294        | 148,294          | Corporate bonds                     | -                | 141,121        | 141,121          |
| 153,078   | -              | 153,078          | Cash                                | 159,937          | -              | 159,937          |
| <u>1,277,243</u>                                  | <u>317,317</u> | <u>1,594,560</u> | <b>Total</b>                        | <u>1,227,752</u> | <u>340,259</u> | <u>1,568,011</u> |

The 2014/15 comparators have been restated to reflect that equity investments were 100% quoted.

### 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 Aon Hewitt 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 2013.

The principal assumptions used by the actuary have been:

| 2014-15  |   | 2015-16                         |                                     |
|--|---|---------------------------------|-------------------------------------|
| Local Government Pension Scheme                      | Discretionary Benefits Arrangements           | Local Government Pension Scheme | Discretionary Benefits Arrangements |
| <b>Mortality assumptions:</b>                        |   |                                 |                                     |
| Longevity at 65 for current pensioners:              |   |                                 |                                     |
| 22.6   | 22.6 - Men                                    | 22.7                            | 22.7                                |
| 25.1   | 25.1 - Women                                  | 25.2                            | 25.2                                |
| Longevity at 65 for future pensioners:               |   |                                 |                                     |
| 24.8   | n/a - Men                                     | 24.9                            | n/a                                 |
| 27.4   | n/a - Women                                   | 27.5                            | n/a                                 |
| <b>Principal financial assumptions (% per annum)</b> |   |                                 |                                     |
| 2.9  | 2.9 - Rate of inflation (RPI)                 | 2.9                             | 2.9                                 |
| 1.8  | 1.8 - Rate of inflation (CPI)                 | 1.8                             | 1.8                                 |
| 3.3  | n/a - Rate of increase in salaries            | 3.3                             | n/a                                 |
| 1.8  | 1.8 - Rate of increase in pensions            | 1.8                             | 1.8                                 |
| 3.2  | 3.1 - Rate for discounting scheme liabilities | 3.4                             | 3.4                                 |

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assume for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit cost method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in 2014/15.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2016 and the projected service cost for the year ending 31 March 2017 is set out below:

**Discount rate assumption**

| Adjustment to discount rate                  | + 0.1% per annum | Base Figure | - 0.1% per annum |
|--|------------------|-------------|------------------|
| Present value of total obligation (£000)     | 2,359,490        | 2,402,560   | 2,446,420        |
| Change in present value of total obligation  | -1.8%            |             | 1.8%             |
| Projected service cost (£000)                | 48,100           | 49,710      | 51,360           |
| Approximate change in projected service cost | -3.2%            |             | 3.3%             |

**Rate of general increase in salaries**

| Adjustment to salary increase rate           | + 0.1% per annum | Base Figure | - 0.1% per annum |
|--|------------------|-------------|------------------|
| Present value of total obligation (£000)     | 2,413,990        | 2,402,560   | 2,391,260        |
| Change in present value of total obligation  | 0.5%             |             | -0.5%            |
| Projected service cost (£000)                | 49,710           | 49,710      | 49,710           |
| Approximate change in projected service cost | 0.0%             |             | 0.0%             |

**Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption**

| Adjustment to pension increase rate          | + 0.1% per annum | Base Figure | - 0.1% per annum |
|--|------------------|-------------|------------------|
| Present value of total obligation (£000)     | 2,434,900        | 2,402,560   | 2,370,690        |
| Change in present value of total obligation  | 1.3%             |             | -1.3%            |
| Projected service cost (£000)                | 51,360           | 49,710      | 48,100           |
| Approximate change in projected service cost | 3.3%             |             | -3.2%            |

**Post retirement mortality assumption**

| Adjustment to mortality age rating assumption * | - 1 year  | Base Figure | + 1 year  |
|---|-----------|-------------|-----------|
| Present value of total obligation (£000)        | 2,464,790 | 2,402,560   | 2,340,330 |
| Change in present value of total obligation     | 2.6%      |             | -2.6%     |
| Projected service cost (£000)                   | 51,390    | 49,710      | 48,030    |
| Approximate change in projected service cost    | 3.4%      |             | -3.4%     |

\* a rating of + 1 year means that members are assumed to follow the mortality pattern of the base table for an individual who is 1 year older than them.

**Impact on the Authority's Cash Flows**

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over 18 years from 1 April 2014. Funding levels are monitored on an annual basis. The next triennial valuation will be based on the position at 31 March 2016 and will take effect from the 1 April 2017.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new



career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipates paying £54.780m contributions to the scheme in 2016/17 (£53.710m in 2015/16).

The weighted average duration of the defined benefit obligation for scheme members is 18.1 years at 31 March 2016 (18.1 years at 31 March 2015).

## **46. Contingent Liabilities**

### **a) Job Evaluation**

A contingent liability has been disclosed in respect of the implementation of a second phase of job evaluation, the costs and scope of which have yet to be fully determined.

### **b) Pension Contributions on Equal Pay Payments**

Equal pay settlements were not originally deemed to be pensionable however, this has now changed and an element of choice has been introduced. Individuals can choose to have their settlements considered to be pensionable, which would lead to a liability for the Council to make employer contributions to the Pension Fund. This provision has now been added to agreements that individuals with pending Equal Pay Settlements will sign up to. There is no certainty that an individual will decide to pay pension contributions on their Equal Pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain.

### **c) Equal Value Claims**

Solicitors representing a number of individuals have lodged claims under the Equality Act 2010 in relation to "work of equal value". These types of cases are complex and so far only partial information has been supplied by the claimants' solicitors. Currently the claims are split into two groups. A small group of claims are more advanced and may have to be settled. The much larger group is less advanced and it is not clear whether the Council will have to make settlement payments or in what amount if payments are required.

### **d) Municipal Mutual Insurance**

Historically, the Municipal Mutual Insurance Company (MMI) was the principal provider of insurance to the Council. In the early 1990's it became clear that MMI was in danger of becoming insolvent. It was determined that MMI would close to new business and there would be an orderly run down of all the existing and prospective claims. The Council signed up to this agreement and as remaining assets have proven to be insufficient to cover potential future liabilities, the Scheme of Arrangement was invoked on 13 November 2012. At the current time, the Council's maximum potential liability that can be clawed back is £6.0m.

The Council's Insurance Adviser initially recommended that adequate provision should be held against future calls in the range of 25% to 30%. As at 31 March 2015 the Council provided for 28% (£0.774m) of the value of the total potential liability in the Scheme of Arrangement, after the levy payments totaling £0.856m were made in 2013/14 and 2014/15. However, during 2015/16 a further levy of £0.616m was paid and as a result of a further deterioration in the MMI balance sheet it was felt prudent to increase the provision to 34% of the outstanding liability net of the levy payments made to date. As the provision is not for the total amount of the potential liability, there is the possibility of future claims, the Council considers there to be a contingent liability as it has no certainty about the timing or the amount of any future liability.

Any increase in the provision in respect of the Scheme of Arrangement will be met from the Insurance Reserve.

**e) Closed Landfill Sites**

The Council continues to own a number of closed landfill sites, with various degrees of restoration. The Council is responsible for restoration maintenance works and after care costs, which include site maintenance, gas management, environmental monitoring and leachate (liquid waste) management. Much of this work was contracted to Premier Waste until 31 May 2013, when responsibility transferred to the Council. The Council considers that there is likely to be a liability in respect of restoration works and after care costs for a number of closed landfill sites. A full review of the liability has been undertaken, and a final report was received in May 2014. This report recommends proposals for the management of the retained sites and work is on-going to determine the financial liabilities associated with these proposals. The Environment Agency, the regulatory body for permitted closed landfill sites is working closely with the Council recommending priority order for works to sites. As the full value and timing of this liability remains uncertain, it has been included in the accounts as a contingent liability.

**f) Joint Stocks Phase 1 and Phase 2 Landfill Site**

The Environment Agency is the regulator of the Landfill site as described in the Environmental Permitting (England and Wales) Regulations 2010. Under these regulations a Permit to operate this landfill site was transferred to the Council following the liquidation of Premier Waste on 31 May 2013. The Council became responsible for managing the site's Environmental Permit from 1 June 2013 and has allocated resources within its MTFP to restore and maintain the facility, which is no longer operational. Capping and restoration works to Phase 2 were completed to the Environment Agency's satisfaction in May 2015. Soil importation is progressing as part of the final Phase 1 works. It is anticipated Phase 1 works will be split into two parts, the first commencing in March 2017/18 subject to successful procurement. A performance deed has been established to ensure that the Environment Agency has the resources to meet the legal obligations associated with the site in the event that the Council fails to do so. The amount secured by this deed is £4.25m for the first year which is reviewable annually and subject to RPIJ (Jevons) increases. The first review by the Environment Agency actually took place in June 2015 resulting in a small increase of the provision to £4.34m. This provision will stabilise and gradually diminish over the next 60 years as the liability reduces. The

Council has no immediate financial liability as a payment under the performance deed would only be required if the Council failed to meet its legal requirements. At the current time it is considered unlikely that the Council will fail to meet its obligations in the future therefore it has been included in the accounts as a contingent liability.

**g) Tribunal and Court Claims**

The Council is currently involved in a number of tribunal and court claims where potentially damages may be awarded against the Council. There is no certainty of the outcome of these cases, or of amounts involved; therefore a contingent liability has been included in the accounts.

**h) Warranties in relation to LSVT of Housing Stock**

The Council has given CDHG certain warranties in relation to staff transferring, property and environmental pollution. These warranties to both CDHG and its Funders are for a maximum period of 30 years. The potential liability to the Council is unquantifiable. However, the risks are considered low and not expected to have a material impact on the accounts. Insurance cover for environmental risks has been purchased to protect the Council.

**i) Claims by NHS Trusts and Foundation Trusts for Non-Domestic Rating Relief**

The Council has received requests for mandatory relief from Business Rates from a number of NHS Trusts and Foundation Trusts. Under s.43 of the Local Government Finance Act 1988, the central issue is whether a NHS Trust or Foundation Trust is an institution or other organisation established for charitable purposes only, and if so, it will be entitled to 80% mandatory relief. To date these applications have been dismissed in line with the stance taken by many other Councils. The Council is currently working with the Local Government Association and taking appropriate legal advice. If the Council had to implement this and award mandatory relief an estimate of the cost of the refund has been estimated to be £12.9m for the period 2010/11 to 2015/16. Of this amount £6.3m relates to Durham County Council and the annual impact to the Council going forward is likely to be £1.3m. However, there is no certainty of the outcome of these applications; therefore a contingent liability has been included in the accounts.

## **47. Contingent Assets**

**a) LSVT - VAT Shelter**

The Council and CDHG have entered into a VAT shelter arrangement to enable CDHG to reclaim VAT on future improvement works to the transferred stock. This scheme has been devised and implemented in nearly all stock transfers since 2003 and has approval from HMRC and the Government. Based on development works of £319m and adjusting for VAT on disabled adaptations works, the Council is entitled to a 50% share of VAT recovered by CDHG from this VAT shelter arrangement. The estimated proceeds are £29.25m for the Council over a 15 year period.

**b) VAT claims**

There are a number of potential VAT claims for which the Council may be entitled to a repayment of VAT paid to Her Majesty's Custom and Revenues (HMRC). The likelihood and extent of a repayment and the timing of it remains uncertain, it therefore is included in the accounts as a contingent asset.

**48. Heritage Assets: Further Information on the Council's Collection  
Museum Collections and Artefacts**

This includes:

- Museum exhibits owned by or on long-term loan to the Council at Killhope Lead Mining Museum, Durham Town Hall and Shildon Locomotion Museum (excluding items belonging to the National Railway Museum). The museums are open to the public. Killhope holds the national collection of spar boxes, ornate mineral creations developed by miners in the North Pennines. Further details of the collections can be found on the museums' websites.
- Artefacts held by the Council's Learning Resources service. These items are not on public display but are available for schools and other educational establishments to borrow via an online catalogue.
- Items held by Durham County Record Office, including documents, photographs, films and sound recordings. Public access to the record office is by appointment and an online catalogue is available. The records are stored securely with appropriate temperature and humidity control. These items are not recognised on the Balance Sheet as they have no separate insurance values.
- Books of remembrance and miners banners held in civic buildings

**Artwork, including Public Art and Sculptures**

This includes items of art, including paintings and murals, many of which are open to the public, and public art and sculptures around the county which are publicly accessible. A number of public artworks are not recorded on the Balance Sheet as they have no insurance value and there is no recent cost information available.

Items of art in the public and administrative areas of civic buildings are not recorded on the Balance Sheet as their insurance value cannot be separately distinguished from the buildings and contents insurance values.

Paintings held at Durham Town Hall and by Durham Learning Resources are included in the Museum Collections category above.

**Monuments, Statues and Historic Buildings**

This includes war and colliery memorials, statues and non-operational historic buildings around the county, which are all publicly accessible. Included here are the historic

buildings at Killhope Lead Mining Museum, although they could also be classed as museum exhibits.

A number of monuments and statues are not recorded on the Balance Sheet as they have no insurance value.

### **Civic Regalia and Silverware**

This includes civic chains, badges of office and silverware used for civic purposes. These items are held in safe storage when they are not being used for official purposes.

### **Geophysical / Archaeological**

This includes pit wheel sites around the county and excavations at Binchester Roman Fort (the Council is the guardian of the site). They are not recorded on the Balance Sheet, as they have no insurance value and the land has no cost or market value. Binchester is open to the public from April to September. The pit wheel sites are publicly accessible. Various archaeological items found around the county are on deposit at Bowes Museum, Barnard Castle. They are not recognised as heritage assets by the Council as they are held by the museum.

### **Preservation and Management**

Since the Local Government Reorganisation in 2009 the Council has developed a strategy in order to rationalise office accommodation throughout the county. The office accommodation project team has produced procedural guidelines to set out the agreed approach to dealing with heritage assets during office accommodation moves and/or refurbishments, including working with other local museums, services and specialists where needed, to assess the feasibility, and make suggestions for re-homing of other items.

Options for re-homing items that need to be relocated include:

- adding to the museums service collection
- temporary removal then reinstating in the refurbished building (where possible and suitable security measures can be made)
- relocation to another civic or community building
- gifting the item to a local museum
- disposal (in line with the Council disposal procedure)

Some items are currently in safe storage until they can be returned for display at a suitable location.

## **49. Exceptional Items**

### **Large Scale Voluntary Transfer (LSVT)**

The Council transferred its housing stock to County Durham Housing Group (CDHG) on 13 April 2015. This has had a significant impact on the Council's accounts and this note

explains the main issues and implications for the accounts in 2014/15, 2015/16 and beyond.

- **Assets transferred and retained** - the Council transferred 18,428 dwellings, various small land holdings within housing estates which did not have any future development potential, various operational properties and 3,103 garages. In addition, a total of 194 staff transferred to the housing association. In respect of un-adopted roads and paths, a mutually beneficial agreement has been reached and accommodated in the Transfer Agreement. Across the transferred estates, 101 sites contain roads and footways which are not formally adopted but are, nonetheless, the liability of the County Council. A significant number of them require repair or improvement to restore amenity and mitigate risk and liability. They are not all immediate priorities for attention using the Council's own resources, although they would require attention in due course. However, as part of the wider transfer negotiations, CDHG has agreed to pay the Council up to £1.8m to repair and improve these roads and footways over the next seven years. The work will be agreed between the parties annually and, where practicable, will be integrated with CDHG's investment work in respective neighbourhoods. Accordingly the Council will adopt the roads and footpaths in question by the end of the year after their improvement.
- **Transfer price and associated costs** - the transfer price for the dwellings and associated assets is largely determined by a prescribed formula set by Government and reflects the current value of the future income and expenditure streams of the assets over the next 30 years and is known as the Tenanted Market Value (TMV). The transfer price agreed with CDHG was £114.4m. This valuation of housing stock, which is applied for stock transfer, is significantly different to the valuation of dwellings in the Balance Sheet based on the Existing Use of the stock as Social Housing with secure tenancies. The Balance Sheet as at 31 March 2015 reflected the value of Council Dwellings based on the TMV and this led to a revaluation loss of £331.08m, of which £329.79m was charged to the HRA Cost of Services with the balance of £1.29m being charged to the Revaluation Reserve. Whilst the £329.79m resulted in an exceptional charge to the HRA Cost of Services in 2014/15, it was offset by being reversed out of the HRA via the Movement in the Housing Revenue Account Statement. The transfer price agreed with CDHG (£114.4m) was used to repay part of the outstanding HRA debt in 2015/16. In 2015/16 the Council received an Overhanging Debt Grant of £207.03m from the government to repay its remaining housing attributable debt of £129.6m and premia of £77.43m associated with the premature repayment.
- **VAT Shelter arrangements** - in normal circumstances, housing associations are not able to reclaim VAT on improvement works to dwellings. The VAT Shelter is an arrangement, used in every transfer since 2002, with Her Majesty's Revenues and Customs (HMRC) agreement, whereby CDHG can reclaim VAT on future improvement works to the transferred stock. The Council has agreed a 50% share of the reclaimed VAT with CDHG over a 15 year period. The value of the development agreement for catch-up works on the transferred stock is £319m and the associated VAT at 20% is

£58.5m (after adjusting for disabled adaptations works). The Council will therefore receive 50% of the VAT reclaimed resulting in £29.25m of receipts over the 15 year period.

- **Pension Deficit** - the pension deficit in respect of the staff transferring to CDHG has been transferred to the group of registered providers. This will be paid to the pension fund in accordance with existing arrangements for all pension fund employers. The financial provision for this has been built into the business plan of CDHG.
- **Service Level Agreements (SLA's)** - agreements were negotiated with CDHG to provide them with a range of services post transfer. The main SLA's include grounds maintenance and ICT.
- **Rent Arrears** - the Council transferred to CDHG the rent arrears due from existing tenants and former tenants. The amount paid to the Council for these arrears was based on a percentage of their value and reflected the value of the arrears to the Council and the cost to CDHG of pursuing them.
- **Contingent Liabilities** - as is usual in stock transfers, the Council gave CDHG certain warranties in relation to staff transferring, property and environmental pollution. The potential liability to the Council is unquantifiable. Although, the risks are considered to be low and not expected to have a material impact on the accounts, and insurance cover has been purchased to protect the Council.
- **Disposals Clawback Agreement** – The Council negotiated a clawback from the future sale / disposal of any transferred land and buildings. CDHG have agreed to pay the Council a proportion of any gain as set out in Schedule 14 of the Transfer Agreement.
- **Closure of the HRA** - the Council obtained secretary of state approval to close the HRA and the HRA was closed during 2015/16, and all reserves held were transferred to the General Fund (£23.156m).

## 50. Pooled Budget – Better Care Fund

The Council has entered into a Pooled Budget arrangement under the Better Care Fund (BCF) Agreement for Health and Social Care initiatives.

The BCF was introduced by the Government on 1 April 2015 and the Pooled Budget arrangement will support the BCF vision of improving the health and wellbeing of the people of County Durham and reducing health inequalities.

The Pooled Budget partners consist of Durham County Council (Local Authority), North Durham Clinical Commissioning Group and Durham Dales, Easington and Sedgfield Clinical Commissioning Group (CCGs).

The Pooled Budget is hosted by the Local Authority on behalf of the three partners to the agreement.

|  | 31 March 2015<br>£000 | 31 March 2016<br>£000 |
|--|-----------------------|-----------------------|
| <b>Funding Provided to BCF</b>                                       |                       |                       |
| Local Authority (Capital)  | 0                     | 4,542                 |
| CCGs   | 0                     | 39,193                |
|  | <b>0</b>              | <b>43,735</b>         |
| <b>Expenditure met from BCF</b>                                      |                       |                       |
| Local Authority (Capital)  | 0                     | 28,304                |
| CCGs   | 0                     | 15,431                |
|  | <b>0</b>              | <b>43,735</b>         |
| <b>Net surplus on pooled budget</b>                                  | <b>0</b>              | <b>0</b>              |
| <b>Authority share of the net surplus arising from pooled budget</b> | <b>0</b>              | <b>0</b>              |

## 51. Prior Period Adjustments (PPAs)

There are no Prior Period Adjustments.



The Housing Revenue Account (HRA) is a record of revenue income and expenditure relating to the Council's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is funded by rents charged to tenants. Consequently the HRA is a statutory account, ring-fenced from the rest of the General Fund, so that rents cannot be subsidised from Council Tax. The statement has two parts:

1. HRA Income and Expenditure Statement, and
2. Movement on the HRA Statement.

Notes to the HRA follow these two statements.

On 13 April 2015 the Council's housing stock was transferred to County Durham Housing Group.

### HRA Income and Expenditure Statement

| 2014-15<br>£000 |  | Notes   | 2015-16<br>£000 |
|-----------------|--|---------|-----------------|
|                 | Income   |         |                 |
| -64,834         | Dwelling Rents (Net of voids)  | 6       | -1,304          |
| -1,075          | Non Dwelling Rents (Net of voids)  |         | -17             |
| -193            | Charges for Services and Facilities  |         | -53             |
| -3,161          | Contributions towards Expenditure  |         | -541            |
| -69,263         | Total Income   |         | -1,915          |
|                 | Expenditure  |         |                 |
| 12,957          | Repairs and Maintenance  | 8       | 3,813           |
| 13,915          | Supervision and Management   | 8       | 682             |
| 422             | Rent, Rates, Taxes and Other Charges   | 9       | -               |
| 175             | Debt Management Costs  |         | -               |
| 373,958         | Depreciation and Impairment of Non-Current Assets  | 10 & 11 | -               |
| 423             | Movement in the Allowance for Bad Debts  | 7       | -               |
| 62              | Sums directed by the Secretary of State that are expenditure in accordance with the Code   |         | -               |
| 401,912         | Total Expenditure  |         | 4,495           |
| 332,649         | Net Expenditure of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement                          |         | 2,580           |
| 1,085           | HRA Services Share of Corporate and Democratic Core  |         | -               |
| 386             | HRA share of other amounts included in the whole authority net expenditure of continuing operations but not allocated to specific services |         | -               |
| 334,120         | Net Expenditure for HRA Services   |         | 2,580           |
| -1,075          | Gain (-) or Loss on Sale of HRA Non-Current Assets   |         | 15,499          |
| 10,501          | Interest Payable and Similar Charges   |         | 420             |
| -               | Premium payable on repayment of debt (Housing Stock Transfer)  |         | 77,435          |
| -473            | Interest and Investment Income   |         | -78             |
| -18,682         | Capital Grants & Contributions Receivable  |         | -               |
| -               | Government Grant in respect of Housing Stock Transfer  |         | -207,035        |
| 324,391         | Deficit / Surplus (-) for the Year on HRA Services   |         | -111,179        |

## Movement on the HRA Statement

This statement takes the outturn on the HRA Income and Expenditure Statement and reconciles it to the surplus or deficit on the HRA Balance, calculated in accordance with the Local Government and Housing Act 1989.

| 2014-15<br>£000 |  | 2015-16<br>£000 | £000     |
|-----------------|--|-----------------|----------|
| 7,155           | Balance on the HRA at the end of the previous year                             |                 | 26,078   |
| -324,391        | Deficit (-) / Surplus for the year on the HRA Income and Expenditure Statement | 111,179         |          |
| 342,271         | Adjustments between accounting basis and funding basis under statute           | -114,101        |          |
| 17,880          | Net Increase or decrease (-) before transfer to or from reserves               | -2,922          |          |
| 1,043           | Transfers to (-) or from reserves  | -23,156         |          |
| 18,923          | Increase or decrease (-) in the year on the HRA                                |                 | -26,078  |
| 26,078          | <b>Balance on the HRA at the end of the current year</b>                       |                 | <b>-</b> |

## Note to the Movement on the HRA Statement

### 1. Analysis of Movement of the HRA Statement

This note further analyses the Movement on the HRA Statement and shows the adjustments between accounting basis and funding basis under regulations.

| 2014-15<br>£000 |   | 2015-16<br>£000 |
|-----------------|---|-----------------|
| 7,468           | Transfer to/from the Major Repairs Reserve                                  | -               |
| -355,112        | Transfer to/from the Capital Adjustment Account                             | 129,600         |
| 1,075           | Gain or loss (-) on sale of HRA Non-Current Assets                          | -15,499         |
| 480             | HRA Share of Contributions to or from the Pension Reserve                   | -               |
| 3,818           | Capital expenditure funded by the HRA                                       | -               |
| -342,271        | <b>Adjustments between accounting basis and funding basis under statute</b> | <b>114,101</b>  |

## Notes to HRA Income and Expenditure Account

### 1. Exceptional Item – Housing Stock Transfer

On 13 April 2015 the Council's housing stock was transferred to County Durham Housing Group. In 2015/16 there were a small number of transactions up to the date of transfer, as well as transactions to account for the transfer and write off remaining balances. Further details can be found in Note 49 of the Core Financial Statements.

### 1. Housing Stock

The following table shows the movements in stock numbers at the beginning and end of the year, and shows that the Council held no housing units following stock transfer:-

| <b>Movements in the Year</b> | <b>Houses</b> | <b>Flats</b> | <b>Bungalows</b> | <b>Total</b> |
|------------------------------|---------------|--------------|------------------|--------------|
| Stock at 1 April 2015        | 11,156        | 1,827        | 5,445            | 18,428       |
| Less:                        |               |              |                  |              |
| Sales                        | 1             | -            | -                | 1            |
| Stock Transfer               | 11,155        | 1,827        | 5,445            | 18,427       |
| Stock at 31 March 2016       | -             | -            | -                | -            |

## 2. Housing Assets Valuation

The total Balance Sheet value of the land, houses and other property within the Housing Revenue Account was as follows:

| <b>Valuation at<br/>1 April 2015<br/>£000</b> | <b>Asset Type</b>                 | <b>Valuation at<br/>31 March 2016<br/>£000</b> |
|---|-----------------------------------|--|
|   | Operational Assets                |  |
| 114,353                                       | Dwellings                         | -  |
| 7,598   | Garages                           | -  |
| <u>121,951</u>                                | Total Dwellings including Garages | <u>-</u>                                       |
| 6,900   | Other Land and Buildings          | -  |
| 18  | Vehicles, Plant & Equipment       | -  |
| 7,760   | Non-Operational Assets            | -  |
| <u>136,629</u>                                | <b>Balance Sheet Valuation</b>    | <u>-</u>                                       |

No housing assets were held at 31 March 2016 reflecting the transfer of assets out of the Housing Revenue Account as a consequence of stock transfer.

## 4. Capital Expenditure and Financing

The Council spent £0.000m during 2015/16 (£42.826m in 2014/15) on its HRA Assets:

| <b>2014-15<br/>£000</b> | <b>Expenditure</b>                     | <b>2015-16<br/>£000</b> |
|-------------------------|--|-------------------------|
| 42,826                  | Improvements to Council Housing Assets | -                       |
| <u>42,826</u>           | <b>Total Expenditure</b>               | <u>-</u>                |

This expenditure was financed as follows:

| <b>2014-15<br/>£000</b> | <b>Financing</b>                            | <b>2015-16<br/>£000</b> |
|-------------------------|---|-------------------------|
| 7,468                   | Majors Repairs Reserve                      | -                       |
| 1,346                   | Capital Receipts                            | -                       |
| 11,512                  | Prudential Borrowing (Housing Improvements) | -                       |
| 18,682                  | Capital Grants                              | -                       |
| 3,818                   | Revenue Contributions                       | -                       |
| <u>42,826</u>           | <b>Total Financing</b>                      | <u>-</u>                |

## 5. Capital Receipts

During 2015/16 the Council generated £0.642m gross capital receipts from the sale of its Housing assets as shown in the following table:

| 2014-15<br>£000 | Source of Receipt                     | 2015-16<br>£000 |
|-----------------|---------------------------------------|-----------------|
| 2,590           | Council House Sales (RTB Legislation) | 30              |
| 572             | Qualifying Council House Disposals    | 604             |
| 16              | Council House Mortgage Repayments     | 8               |
| 154             | Housing Land & Other Sales            | -               |
| <u>3,332</u>    | <b>Total Capital Receipts</b>         | <u>642</u>      |

Under the Capital Receipts Pooling Arrangements the Council had to pay over to the Government £0.034m of the above sale proceeds in 2015/16. This is shown in the following table:

| Source of Receipt                     | Capital<br>Receipt<br>£000 | Usable<br>Element<br>£000 | Poolable<br>Element<br>£000 |
|---------------------------------------|----------------------------|---------------------------|-----------------------------|
| Council House Sales (RTB Legislation) | 30                         | 2                         | 28                          |
| Qualifying Council House Disposals    | 604                        | 604                       | -                           |
| Council House Mortgage Repayments     | 8                          | 2                         | 6                           |
| Housing Land & Other Sales            | -                          | -                         | -                           |
| <b>Total</b>                          | <u>642</u>                 | <u>608</u>                | <u>34</u>                   |

## 6. Dwelling Rents

This sum represents the gross rental income due for one week of the year in 2015/16 (the full year in 2014/15) after allowance is made for empty properties.

## 7. Rent Arrears and Provision for Bad and Doubtful Debts

The amount of rent arrears at 31 March 2016 was £0.000m (£3.356m at 31 March 2015). The aggregate balance sheet provision in respect of uncollectable debts at 31 March 2016 is £0.000m (£2.772m at 31 March 2015). The actual charge to the HRA in respect of bad debts provision and debts written off in 2015/16 was £0.000m (£0.457m in 2014/15).

All rent arrears were transferred to County Durham Housing Group as part of stock transfer and consequently no amounts were retained by the Council at 31 March 2016.

## 8. Repairs and Maintenance, and Supervision and Management

There were minimal repairs and management costs during 2015/16, reflecting one week's costs. The most significant element of spend was a sum of £3.300m in respect of repairs in the Easington area.

## 9. Rent, Rates, Taxes and Other

This includes all items which the Council is liable to pay in respect of HRA property, including Council Tax on empty properties, lease rental on properties, rates and water charges payable on non-dwellings and landlord insurance costs. There were no transactions during the short period the stock was held during 2015/16.

## 10. Depreciation of Property, Plant and Equipment

Authorities are required to charge depreciation on all HRA properties calculated in accordance with proper practices, including non-dwelling properties. There was no charge for depreciation in 2015/16 (£7.499m in 2014/15):

| 2014-15<br>£000 | Asset type                                       | 2015-16<br>£000 |
|-----------------|--|-----------------|
| 6,799           | Operational Assets: Dwellings                    | -               |
| 674             | Operational Assets: Other Buildings e.g. Garages | -               |
| 26              | Operational Assets: Vehicles, Plant & Equipment  | -               |
| <u>7,499</u>    | <b>Total Depreciation Charge</b>                 | <u>-</u>        |

## 11. Impairment and Revaluation Losses on Property, Plant and Equipment

There was no charge to the Housing Revenue Account for impairment and revaluation losses in 2015/16 (£372.260m in 2014/15) for losses where there had either been a general fall in the value of the assets or where the Council had incurred expenditure on assets for which there had not been an equivalent increase in the value of the asset.

## 12. Movement on Major Repairs Reserve (MRR)

Prior to stock transfer, the Council was required to maintain a Major Repairs Reserve (MRR). The items to be credited to the reserve were an amount equal to HRA dwelling depreciation for the year, and transfers from the HRA required by statutory provision. There were no movements in the Major Repairs Reserve during 2015/16, which started with a nil balance.

| 2014-15<br>£000 | Movement on Reserve                     | 2015-16<br>£000 |
|-----------------|---|-----------------|
| -               | <b>Balance as at 1st April</b>          | -               |
| -7,468          | Depreciation on HRA Assets              | -               |
| 7,468           | HRA Capital Expenditure funded from MRR | -               |
| <u>-</u>        | <b>Balance as at 31st March</b>         | <u>-</u>        |

This account reflects a statutory requirement to maintain a separate Collection Fund. It shows the transactions relating to Council Tax and Non-Domestic Rates (Business Rates) and illustrates the way these have been distributed to Central Government, Durham Police and Crime Commissioner, County Durham and Darlington Fire and Rescue Authority and to Durham County Council General Fund. Notes to the statements follow.

### Income and Expenditure Account

| 2014-15   |   | 2015-16                |              |               |
|---|---|------------------------|--------------|---------------|
| £000  |   | Council<br>Tax<br>£000 | NNDR<br>£000 | Total<br>£000 |
| <b>Income</b>   |   |                        |              |               |
| -219,895  | Council Tax due from Taxpayers                                  | -227,357               |              | -227,357      |
| -116,565  | Income from Business Ratepayers                                 |                        | -116,611     | -116,611      |
| -446  | Deferred Rates 2012/13  |                        |              |               |
|   | Recovery of Previous Year's Estimated Deficit                   |                        |              |               |
| -336,906  | Total Income  | -227,357               | -116,611     | -343,968      |
| <b>Expenditure</b>  |   |                        |              |               |
| <b>Precepts and Demands</b>   |   |                        |              |               |
| 168,845   | Durham County Council   | 174,134                |              | 174,134       |
| 10,450  | 113 Towns and Parishes and 1 Charter Trust                      | 10,921                 |              | 10,921        |
| 20,592  | Durham Police and Crime Commissioner                            | 21,235                 |              | 21,235        |
| 11,893  | County Durham & Darlington Fire & Rescue Authority              | 12,261                 |              | 12,261        |
| <b>Recovery of Previous Year's Deficit (-) / Payment of Previous Year's Surplus</b> |   |                        |              |               |
| -1,624  | Central Government  |                        | 510          | 510           |
| -1,591  | Durham County Council   |                        | 500          | 500           |
| -32   | County Durham & Darlington Fire & Rescue Authority              |                        | 10           | 10            |
| <b>Business Rates</b>   |   |                        |              |               |
| 55,051  | Payment to Central Government                                   |                        | 55,916       | 55,916        |
| 1,101   | Payment to County Durham and Darlington Fire & Rescue Authority |                        | 1,118        | 1,118         |
| 53,968  | Payment to Durham County Council, including Renewable Energy    |                        | 54,810       | 54,810        |
| 600   | Costs of Collection - Business Rates                            |                        | 601          | 601           |
| <b>Bad &amp; Doubtful Debts</b>   |   |                        |              |               |
| 7,526   | Write Offs  | 1,403                  | 1,722        | 3,125         |
| 2,346   | Change in Provision for Bad Debts                               | 613                    | 34           | 647           |
| 2,493   | Provision for Appeals   |                        | 10,563       | 10,563        |
| 331,618   | Total Expenditure   | 220,567                | 125,784      | 346,351       |
| -5,288  | Movement on Fund Balance  | -6,790                 | 9,173        | 2,383         |
| 3,273   | Surplus(-) /Deficit on Fund Brought Forward                     | -491                   | -1,524       | -2,015        |
| -2,015  | <b>Fund Balance Carried Forward</b>                             | -7,281                 | 7,649        | 368           |
| <b>Allocated to :</b>   |   |                        |              |               |
| -1,158  | Durham County Council   | -6,106                 | 3,769        | -2,337        |
| -50   | Durham Police and Crime Commissioner                            | -744                   | 3,845        | 3,101         |
| -44   | County Durham and Darlington Fire & Rescue Authority            | -431                   | 77           | -354          |
| -762  | Central Government  |                        |              | -             |
| -1  | Durham County Council - Renewable Energy                        |                        | -42          | -42           |
| -2,015  |   | -7,281                 | 7,649        | 368           |

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## Notes to the Collection Fund Accounts

### i. The Collection Fund Income and Expenditure Account

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for income relating to Council Tax and Non Domestic Rates on behalf of those bodies (including the Council's own General Fund) for which the income has been raised. The costs of administering the Collection Fund are accounted for in the General Fund.

### ii. Council Tax

Council Tax was introduced by the Government to replace the Community Charge with effect from 1 April 1993. It is a tax based on property values, which are grouped into eight bands ranging from A to H.

Durham County Council is the billing authority for its administrative area and collects Council Tax to cover its own requirements and those of Durham Police and Crime Commissioner, County Durham and Darlington Fire and Rescue Authority and, where applicable, Town and Parish Councils.

Based on information on the Valuation Lists, the properties in each area are classified into Bands A to H. Adjustments are made to the number of properties in each Band by taking into account those occupied by a single Council Taxpayer (25% discount), long-term empty (50% premium) and other discounts and exemptions. A factor is then applied to each band to convert the properties into Band D equivalents and finally an allowance for non-collection to give the Tax Base.

The Council Tax Base is then divided into the County Council Demand and the Precepts requested by Durham Police and Crime Commissioner, County Durham and Darlington Fire and Rescue Authority and, where applicable, Town and Parish Councils to calculate the standard Band D Council Tax. The other bands' liabilities are calculated by reference to the same proportion used to convert to band D:

Collection Fund

| Property Value  | Council Band | Number of Properties in | Proportion of Band 'D' | Band 'D' Equivalent |
|---|--------------|-------------------------|------------------------|---------------------|
| Up to £ 40,000  | Band A       | 143,377                 | 6/9ths                 | 95,585              |
| Over £ 40,000 up to £ 52,000                              | Band B       | 30,272                  | 7/9ths                 | 23,545              |
| Over £ 52,000 up to £ 68,000                              | Band C       | 28,936                  | 8/9ths                 | 25,721              |
| Over £ 68,000 up to £ 88,000                              | Band D       | 19,894                  | 9/9ths                 | 19,894              |
| Over £ 88,000 up to £120,000                              | Band E       | 9,727                   | 11/9ths                | 11,889              |
| Over £120,000 up to £160,000                              | Band F       | 3,739                   | 13/9ths                | 5,401               |
| Over £160,000 up to £320,000                              | Band G       | 2,051                   | 15/9ths                | 3,418               |
| Over £320,000   | Band H       | 260                     | 18/9ths                | 520                 |
|   |              | 238,256                 |                        | 185,973             |
| Net effect of discounts, reliefs, exemptions and premiums |              |                         |                        | 55,480.00           |
| <b>Chargeable Properties (Taxbase) 2015/16:</b>           |              |                         |                        | <b>130,493.0</b>    |

The Council Tax Base for 2014/15 was 129,047.4

In 2015/16, the Band D charge was £1,591.12 (£1,591.12 2014/15) made up of Durham County Council £1,334.43 (£1,308.39 2014/15), Durham Police Authority £162.73 (£159.57 2014/15) and County Durham and Darlington Fire and Rescue Authority £93.96 (£92.16 2014/15). In addition, Band D Town and Parish precepts between £0 and £297.88 (£0 and £276.32 2014/15) are chargeable and there are some areas with no Town or Parish Council.

Any surplus or deficit on the Collection Fund – Council Tax estimated in mid-January each year must be taken into account when setting the following year's Council Tax by those authorities precepting upon the fund and either collected from or paid over to those bodies during the following financial year.

The Collection Fund - Council Tax estimated a £7.031m surplus for 2015/16, which will be distributed to major preceptors during 2016/17. At 31 March 2016, the actual outturn was a surplus of £7.281m (surplus of £0.491m at 31 March 2015).

### Provision for Bad Debts

Each year the provision made for uncollectable amounts on Council Tax is revised by examining the aged debt analysis and applying the basis outlined below:

Arrears at 31 March 2016 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories:

- Category 1 No reminder yet sent;
- Category 2 First, second or final reminder; and,
- Category 3 Summons (including liability orders, bailiff and bankruptcy)



A percentage has been applied to the total arrears in various groupings as below:

At 31 March 2016, the calculated provision of £19.177m covered 78% of arrears (£18.563m, 78% at 31 March 2015).

### Collection Fund – Council Tax Balance

The Collection Fund - Council Tax balance at 31 March 2016 amounted to a surplus of £7.281m (surplus of £0.491m at 31 March 2015).

Durham County Council and the major preceptors, Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue, each account for a share of the Collection Fund balance in proportion to their Precept or Demand on the fund.

This also applies to the balances for arrears and prepayments on the Council Taxpayers account and the Provision for Doubtful Debts for Council Tax.

The following table shows how the Council Tax balances have been allocated between Durham County Council and the major precepting authorities:

| Authority  | Year end<br>Surplus/Deficit<br>on Collection<br>Fund - Council<br>Tax<br>£000 | Provision<br>for Bad Debts -<br>Council Tax<br>£000 | Council<br>Tax<br>Arrears<br>£000 | Council Tax<br>Overpayments<br>and<br>Prepayments<br>£000 |
|--|---|---|-----------------------------------|---|
| Durham County Council                              | -6,106  | -16,134   | 20,575                            | -3,103  |
| Durham Police and Crime Commissioner               | -744  | -1,930  | 2,460                             | -371  |
| County Durham & Darlington Fire & Rescue Authority | -431  | -1,113  | 1,420                             | -214  |
| <b>Total Allocated</b>                             | <b>-7,281</b>   | <b>-19,177</b>                                      | <b>24,455</b>                     | <b>-3,688</b>   |

### iii. Business Rates (National Non Domestic Rates)

Business Rates are determined on a national basis by Central Government, which sets an annual non-domestic multiplier each year. This multiplier is applied to the rateable value of the property to give, subject to various reliefs and exemptions, the rates payable for the year.

In 2015/16, the general multiplier was £0.493 (£0.482 in 2014/15) and the small business multiplier was £0.480 (£0.471 in 2014/15). The total non-domestic rateable value for Durham County Council at 31 March 2016 was £307.581m (VOA schedule dated 30 March 2016) (£302.522m at 31 March 2015)

From 1 April 2013, the Business Rates Retention Scheme was introduced. Instead of paying into a central pool, the business rates income for the Durham County Council administrative area is shared between Central Government (50%), Durham County Council (49%) and County Durham and Darlington Fire and Rescue Authority (1%). Any income from certain business areas, e.g. Renewable Energy, accrues only to Durham County Council. This scheme aims to give Authorities a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates.

The business rates due to be paid over during 2015/16 were estimated before the start of the year on the NNDR1, a statutory document submitted in January 2015. In addition, during 2015/16, the estimated surplus for 2014/15 was paid to shareholders as shown on the Income and Expenditure Account.

The estimated outturn for 2015/16 was included on the NNDR1 for 2016/17, submitted in January 2016. This predicted a deficit of £6.692m (surplus £1.021m estimated for 2014/15) of which Durham County Council's share would be £3.279m (surplus of £0.500m for 2014/15). Any estimated surplus or deficit is either paid to or recovered from each shareholder in the following financial year. The difference between the estimated outturn and the actual at 31 March is carried forward and taken into account in a future financial year. At 31 March 2016, the actual outturn was a deficit of £7.691m (surplus of £1.524m in 2014/15). In addition, income from Renewable Energy amounted to £0.042m (£0.011m in 2014/15).

### **Provision for Bad debts**

Each year the provision made for uncollectable amounts on Business Rates is revised by examining the aged debt analysis and applying the basis outlined below:

Arrears at 31 March 2016 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories:

- Category 1 No reminder yet sent
- Category 2 First, second and final reminder
- Category 3 Summons (including liability orders, bailiff and bankruptcy)

A percentage has been applied to the total arrears in various groupings as below:

| Category of Arrears                         | Year              | Percentage provision applied |
|---|-------------------|------------------------------|
| Category 1- No reminders yet sent           | 2015/16           | 20%                          |
|   | 2014/15           | 50%                          |
|   | 2013/14 and older | 100%                         |
| Category 2- First, second or final reminder | 2015/16           |                              |
|   | 2014/15           | 40%                          |
|   | 2013/14 and older | 65%                          |
| Category 3- Summons etc                     | 2015/16           |                              |
|   | 2014/15           | 55%                          |
|   | 2013/14 and older | 90%                          |

At 31 March 2016, the calculated provision of £5.057m covered 73% of arrears (£5.024m, 70% at 31 March 2015).

### Provision for Appeals

Business Ratepayers are entitled to appeal to the Valuation Office against the rateable Value applied to their property at any time during the validity of the Rating List. Such appeals, if successful, may be back dated to 1 April 2010. Prior to 1 April 2013, the cost of all such appeals would have been borne by Central Government. However, under BRRS, the cost is also shared by Durham County Council and County Durham and Darlington Fire and Rescue Authority. In an attempt to stabilise the expected income from Business Rates, a provision against successful appeal has been introduced. Based on previous success of appeals, an estimate of the expected future repayment of reduction of bills already raised is made and charged to the Collection Fund - Business Rates.

At 31 March 2016, the provision for Appeals was estimated at £18.247m (£7.685m at 31 March 2015).

### Collection Fund Balance - Business Rates

The Collection Fund – Business Rates balance at 31 March 2016 amounted to a deficit of £7.691m (surplus of £1.524m at 31 March 2015).

Durham County Council, Central Government and County Durham and Darlington Fire and Rescue Authority each account for a share of the Collection Fund - Business Rates in proportion to their allocated share of Business Rates income under BRRS. This also applies to the balances for arrears and prepayments on the Business Ratepayers accounts, the provision for bad debts and the provision for appeals.

The following table shows how Business Rates balances have been allocated at 31 March 2016.

Collection Fund

| <b>Authority</b>                                      | <b>Year-end<br/>Surplus/Deficit<br/>on Collection<br/>Fund - NNDR<br/>£000</b> | <b>Provision<br/>for<br/>Bad Debts -<br/>NNDR<br/>£000</b> | <b>Business<br/>Rates<br/>Arrears<br/>£000</b> | <b>Business<br/>Rates<br/>Overpayments<br/>and<br/>Prepayments<br/>£000</b> | <b>Provision for<br/>Appeals<br/>£000</b> |
|---|--|--|--|---|---|
| Durham County Council                                 | 3,768  | -2,478   | 3,395  | -926  | -8,941                                    |
| Central Government                                    | 3,845  | -2,529   | 3,465  | -944  | -9,124                                    |
| County Durham & Darlington<br>Fire & Rescue Authority | 77   | -51  | 69   | -19   | -182                                      |
| <b>Total Allocated</b>                                | <b>7,690</b>   | <b>-5,058</b>  | <b>6,929</b>                                   | <b>-1,889</b>   | <b>-18,247</b>                            |

**Fund Account**

| 2014-15  |                 |   |       | 2015-16  |               |
|--|-----------------|---|-------|----------|---------------|
| £000   | £000            |   | Notes | £000     | £000          |
| <b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND</b> |                 |   |       |          |               |
| -98,848  |                 | Contributions receivable  | 7     | -112,035 |               |
| -2,734   |                 | Transfers in from other pension funds   | 8     | -3,680   |               |
| -5   |                 | Other income  |       | -5       |               |
|  | -101,587        |   |       |          | -115,720      |
| 101,419  |                 | Benefits payable  | 9     | 110,422  |               |
| 8,568  |                 | Payments to and on account of leavers   | 10    | 5,273    |               |
|  | 109,987         |   |       |          | 115,695       |
|  | <b>8,400</b>    | <b>Net withdrawals/ -additions from dealings with members, employers and others</b>     |       |          | <b>-25</b>    |
|  | 6,869           | <b>Management expenses</b>  | 11    |          | 11,490        |
| <b>RETURN ON INVESTMENTS</b>   |                 |   |       |          |               |
| -29,129  |                 | Investment income   | 12    | -22,662  |               |
| -190,260   |                 | Profit and losses on disposal of investments and change in market value of investments  | 14    | 24,955   |               |
|  | <b>-219,389</b> | <b>Net returns on investments</b>   |       |          | <b>2,293</b>  |
|  | <b>-204,120</b> | <b>NET -INCREASE/ DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR</b> |       |          | <b>13,758</b> |

**Net Assets Statement**

| 2014-15                        |                |   |       | 2015-16          |                  |
|--------------------------------|----------------|---|-------|------------------|------------------|
| £000                           | £000           | Notes   | £000  | £000             |                  |
| <b>INVESTMENT ASSETS</b>       |                |   |       |                  |                  |
| 87,417                         |                | Fixed interest securities   | 14    | 31,708           |                  |
| 264,293                        |                | Equities  | 14    | 211,866          |                  |
| 477,348                        |                | Index linked securities   | 14    | 468,296          |                  |
| <u>1,362,350</u>               | 2,191,408      | Pooled investment vehicles  | 14    | <u>1,506,789</u> | 2,218,659        |
| 375                            |                | Loans   | 14    | 349              |                  |
|                                |                | Other cash deposits:  |       |                  |                  |
| 111,133                        |                | Fund Managers   | 14    | 62,372           |                  |
| 54,269                         |                | Short term investments  | 14    | 17,217           |                  |
| <u>12,111</u>                  | <u>177,888</u> | Derivative contracts  | 14    | <u>57,351</u>    | <u>137,289</u>   |
|                                | 2,369,296      |   |       |                  | 2,355,948        |
| <b>Other Investment Assets</b> |                |   |       |                  |                  |
| 1,815                          |                | Dividend accruals   | 14,17 | 1,925            |                  |
| 276                            |                | Tax recovery  | 14,17 | 368              |                  |
| <u>12,060</u>                  | <u>14,151</u>  | Other investment balances   | 14,17 | <u>13,388</u>    | <u>15,681</u>    |
| <b>2,383,447</b>               |                | <b>Total Investment Assets</b>                                      |       |                  | <b>2,371,629</b> |
| <b>INVESTMENT LIABILITIES</b>  |                |   |       |                  |                  |
| -12,886                        |                | Derivative contracts  | 14    | -45,144          |                  |
| <u>-37,354</u>                 |                | Other investment balances   | 18    | -9,734           |                  |
| <b>-50,240</b>                 |                | <b>Total Investment Liabilities</b>                                 |       |                  | <b>-54,878</b>   |
| <b>2,333,207</b>               |                | <b>NET INVESTMENT ASSETS</b>  |       |                  | <b>2,316,751</b> |
|                                | 1,042          | <b>Long Term Assets</b>   | 17    |                  | 833              |
| <b>Current assets</b>          |                |   |       |                  |                  |
| 9,275                          |                | Contributions due from employers                                    | 17    | 8,563            |                  |
| <u>864</u>                     |                | Other current assets  | 17    | <u>1,185</u>     |                  |
|                                | 10,139         |   |       |                  | 9,748            |
| <b>Current liabilities</b>     |                |   |       |                  |                  |
| <u>-9,413</u>                  |                | Current liabilities   | 18    | <u>-6,115</u>    |                  |
|                                | -9,413         |   |       |                  | -6,115           |
| <b>2,334,975</b>               |                | <b>NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH</b> |       |                  | <b>2,321,217</b> |

The Pension Fund's accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the reported accounting period. The actuarial present value of promised retirement benefits, which does take account of such obligations, is disclosed in Note 23.

These accounts should therefore be read in conjunction with the information contained within this note.

## 1. Fund Operation and Membership

Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) which is administered by Durham County Council. The Council is the reporting entity for the Fund. The LGPS is a statutory scheme governed by the following legislation:

- Public Services Pensions Act 2013
- LGPS Regulations 2013 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2009 (as amended)
- LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)

The Pension Fund Committee has responsibility delegated from Durham County Council to discharge the powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder to ensure the effective stewardship of the Pension Fund's affairs. The delegation is wide ranging and covers the management of all of the Fund's activities, including the administration and investment of funds. The Committee meets at least quarterly to assess performance and annually to consider wider matters.

The Corporate Director Resources is responsible for the administration of the Pension Fund. He is assisted by the Pensions Administration and Pension Fund Accounting teams in his statutory duty to ensure the Pension Fund is administered effectively and remains solvent.

The Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and firefighters for whom separate pension arrangements exist. A number of other scheduled and admitted bodies also participate in the Scheme.

The LGPS is a defined benefit occupational pension scheme to provide pensions benefits for pensionable employees of participating bodies. On retirement contributors receive annual pensions and where applicable lump sum payments. Entitlement to these benefits arises mainly on the grounds of reaching retirement age and retirement through early retirement schemes or being made redundant. Contributors who leave and who are not immediately entitled to these benefits may have their pension rights transferred or preserved until reaching retirement age.

The following table provides a summary of contributing members, pensioners in payment and deferred pensioners over the last five years.

|                       | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|-----------------------|---------|---------|---------|---------|---------|
| Contributing Members  | 17,235  | 16,837  | 17,454  | 18,011  | 18,530  |
| Pensioners in Payment | 16,049  | 16,386  | 16,700  | 17,193  | 17,715  |
| Pensioners Deferred   | 11,573  | 12,211  | 13,040  | 13,165  | 14,451  |

In comparison to the figures reported at 31 March 2015, the number of pensionable employees in the Fund at 31 March 2016 has increased by 519, the number of pensioners has increased by 522 and deferred pensioners have increased by 1,286.

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 116 at 31 March 2016), at a rate determined by the Fund's Actuary, and
- pensionable employees, at a rate set by statute.

The Fund's total benefits and contributions are summarised in the following table

| 2014-15        |                |                         | 2015-16        |                 |
|----------------|----------------|-------------------------|----------------|-----------------|
| Benefits       | Contributions  |                         | Benefits       | Contributions   |
| £000           | £000           |                         | £000           | £000            |
| 80,645         | -68,386        | Administering Authority | 83,286         | -70,340         |
| 17,922         | -26,704        | Scheduled Bodies        | 20,567         | -34,000         |
| 2,852          | -3,758         | Admitted Bodies         | 6,569          | -7,695          |
| <b>101,419</b> | <b>-98,848</b> |                         | <b>110,422</b> | <b>-112,035</b> |

## 2. Basis of Preparation

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts have been prepared on an accruals and going concern basis.

The financial statements summarise the transactions and the net assets of the Pension Fund available. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund,



which do take account of such obligations, are carried out every three years. The Actuary completed a valuation during 2013/14, the results of which determined the contribution rates effective from 1 April 2014 to 31 March 2017. Details of the latest valuation are included in Note 22.

### **3. Accounting Policies**

#### **Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on the normal accruals basis of accounting (except individual transfer values to and from the scheme, which are accounted for on a cash basis).

#### ***Fund Account***

#### **Contributions receivable**

Contribution income is categorised and recognised as follows:

- Normal contributions, from both members and employers, are accounted for on an accruals basis;
- Employer's augmentation contributions are accounted for in the year in which they become due;
- Employer's deficit funding contributions are accounted for in the year in which they become due in accordance with the Rates and Adjustment Certificate set by the actuary or on receipt, if earlier than the due date.

#### **Transfers to and from other schemes**

Transfer values represent amounts paid to or received from other local and public authorities, private, occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Individual transfer values paid and received are accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient. Bulk (Group) transfers out and in are accounted for in full in the year in which the transfer value is agreed by Durham County Council Pension Fund.

#### **Pension benefits payable**

Pension benefits are recognised and recorded in the accounting records and reported in the financial statements as an expense in the period to which the benefit relates. Any amounts due, but yet to be paid, are disclosed in the Net Assets Statement as current liabilities.

## **Management expenses**

All management expenses, which include administrative expenses, investment management expenses and oversight and governance costs, are accounted for on an accruals basis.

All staffing and overhead costs of the pensions administration team are charged to the Pension Fund as administrative expenses.

Fees of the external Investment Managers are agreed in the respective mandates governing their appointments. Where an Investment Manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the Fund Account.

Oversight and governance costs include costs relating to the pension fund accounting team, plus legal, actuarial and investments advisory services.

## **Investment income**

Investment income is accounted for as follows:

- income from equities is recognised in the fund account on the date stocks are quoted ex-dividend;
- income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis;
- interest income is recognised in the fund account as it accrues;
- income from other investments is accounted for on an accruals basis;
- income from overseas investments is recorded net of any withholding tax where this cannot be recovered;
- foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable on the last working day in March, where amounts were still outstanding at the year end;
- changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/ losses during the year.

## **Taxation**

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax would normally be accounted for as a fund expense as it arises, however when Investment Managers are not able to supply the necessary information, no taxation is separately disclosed in the Fund Account.

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**Net Assets Statement****Valuation of Investments**

Investments are included in the accounts at their fair value as at the 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.

Market value is the bid price quoted in an active market for securities and unitised investments.

All prices in foreign currency are translated into sterling at the prevailing rate on the last working day of March.

An investment asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes to the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- Quoted equity securities which are traded on an exchange are accounted for on a bid market price basis, where Investment Managers provide valuations in this manner;
- Fixed interest securities that are traded on an exchange are accounted for at bid market price where Investment Managers provide valuations in this manner;
- Index linked securities are valued at bid market value where Investment Managers provide valuations in this manner;
- Unitised securities are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the Investment Manager's valuation report. Single priced unitised securities are valued at the reported price;
- Unquoted equity investments are included based on an estimated price of the investments held. Investment Managers use valuation techniques to establish a price at the year end date based on an arm's length exchange given normal business considerations;
- Derivative contracts outstanding at the year end are included in the Net Assets Statement at fair value (as provided by Investment Managers) and gains and losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

Where Investment Managers are unable to supply investment valuations in line with the above policies, valuations will be included as supplied by the Investment Manager, usually at mid-market price.

### **Cash and Cash Equivalents**

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives a possible asset which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Pension Fund. Contingent assets are not recognised in the Net Assets Statement however details are disclosed in Note 21.

### **Investment transactions**

Investment transactions arising up to 31 March but not settled until later are accrued in the accounts. All purchases and sales of investments in foreign currency are accounted for in sterling at the prevailing rate on the transaction date.

### **Acquisition costs of investments**

Acquisition costs of investments are added to book cost at the time of purchase.

### **Financial liabilities**

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

### **Actuarial present value of promised retirement benefits**

The actual present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26 the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (Note 23).

### **Additional Voluntary Contributions (AVCs)**

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. In accordance with LGPS Regulations, AVCs are not recognised as income or assets in the Pension Fund Accounts, however a summary of the scheme and transactions are disclosed in Note 19 to these accounts.

If, however, AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note 7 as additional contributions from members.

#### **4. Critical Judgements in Applying Accounting Policies**

The preparation of the statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In applying the policies, the Pension Fund has to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the fair value of unquoted private equities is highly subjective and based upon forward looking estimates and judgements involving many factors. Investment Managers provide the values to be recognised in the Net Assets Statement.
- the pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary; the estimate is subject to significant variances based on changes to the underlying assumptions.

#### **5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

The Pension Fund Accounts contain estimated figures that are based upon assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual results may differ from the estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Items for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item                      | Uncertainties   | Effect if actual differs from assumptions   |
|---------------------------|---|---|
| Actuarial Valuation       | Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate used, the salary increase projections, expected changes in retirement ages, mortality rates and returns on pension fund assets. A firm of actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. Note 22 summarises the results of the actuarial valuation. | The Actuary calculated the funding ratio to be 84% as at 31 March 2013 (the last triennial valuation). If the following figures were to differ from the assumptions used in the calculation, there would be a reduction in the funding ratio to: <ul style="list-style-type: none"> <li>- 79% if life expectancy increases by 3 years</li> <li>- 70% if discount rate falls by 1%</li> <li>- 70% if inflation increases by 1%</li> <li>- 73% if equities fall by 25%</li> <li>- 80% if pensionable pay increases by 1%</li> </ul> |
| Fair Value of Investments | The Accounts are as at 31 March 2016 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed in 'Significant Accounting Policies - Valuation of Investments'.   | The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments may be over/ under-stated in the accounts. The total value of Level 3 investments (explained in Note 15) is £154.1m at 31/3/16 (£105.2m at 31/3/15). Every 1% increase/ decrease in fair value would result in an increase/ decrease in the value of the Fund by £1.541m (£1.052m at 31/3/15).   |

## 6. Post Net Assets Statement (Balance Sheet) Event

There have been no events after 31 March 2016 which require any adjustments to be made to these accounts.

## 7. Contributions Receivable

| 2014-15<br>£000 |                                | 2015-16<br>£000 |
|-----------------|--------------------------------|-----------------|
|                 | <b>Employer contributions:</b> |                 |
| -47,702         | Normal                         | -49,770         |
| -3,354          | Augmentation                   | -6,400          |
| -25,313         | Deficit funding                | -32,827         |
|                 | <b>Member contributions:</b>   |                 |
| -22,363         | Normal                         | -22,929         |
| -116            | Additional contributions       | -109            |
| <b>-98,848</b>  |                                | <b>-112,035</b> |
| -68,386         | Administering Authority        | -70,340         |
| -26,704         | Scheduled Bodies               | -34,000         |
| -3,758          | Admitted Bodies                | -7,695          |
| <b>-98,848</b>  |                                | <b>-112,035</b> |

## 8. Transfers in From Other Pension Funds

| 2014-15       |                      | 2015-16       |
|---------------|----------------------|---------------|
| £000          |                      | £000          |
| -2,734        | Individual Transfers | -3,680        |
| <u>-2,734</u> |                      | <u>-3,680</u> |

## 9. Benefits Payable

| 2014-15        |   | 2015-16        |
|----------------|---|----------------|
| £000           |   | £000           |
| 87,994         | Pensions                                      | 90,708         |
| 16,822         | Commutations and lump sum retirement benefits | 22,514         |
| 1,531          | Lump sum death benefits                       | 2,035          |
| -4,928         | Recharged benefits                            | -4,835         |
| <u>101,419</u> |   | <u>110,422</u> |
| 80,645         | Administering Authority                       | 83,286         |
| 17,922         | Scheduled Bodies                              | 20,567         |
| 2,852          | Admitted Bodies                               | 6,569          |
| <u>101,419</u> |   | <u>110,422</u> |

## 10. Payments To and On Account of Leavers

| 2014-15      |   | 2015-16      |
|--------------|---|--------------|
| £000         |   | £000         |
| 65           | Refunds to members leaving service        | 153          |
| 16           | Payments for members joining state scheme | 61           |
| 4,479        | Individual transfers to other schemes     | 5,059        |
| 4,008        | Group transfers to other schemes          | -            |
| <u>8,568</u> |   | <u>5,273</u> |

The Group Transfer figure in 2014/15 of £4.008m was a provision for the transfer value which was paid to South Tyneside Pension Fund during 2015/16. This relates to the group transfer of staff from the former Wear Valley District Council who are now employed by Gentoo and who transferred out of the DCC Pension Fund on 31 March 2008.

## 11. Management Expenses

Administration expenses include the cost of the administering authority in supporting the Fund.

Investment management expenses include any expenses in relation to the management of the pension fund assets. Investment manager fees are based on the value of assets under

management. A performance related fee, derived from a base fee plus a percentage of out-performance, is paid to three of the Fund's investment managers; an ad-valorem fee is payable to the other managers.

Oversight and governance costs include costs relating to the pension fund accounting team, plus legal, actuarial and investments advisory services.

| <b>2014-15</b> |                                | <b>2015-16</b> |
|----------------|--------------------------------|----------------|
| <b>£000</b>    |                                | <b>£000</b>    |
| (restated)     |                                |                |
| 939            | Administration expenses        | 854            |
| 5,234          | Investment Management expenses | 9,962          |
| 696            | Oversight and Governance costs | 674            |
| <b>6,869</b>   |                                | <b>11,490</b>  |

Included within oversight and governance costs is the external audit fee payable to Mazars in 2015/16 of £0.026m (£0.026m in 2014/15).

## 12. Investment Income

| <b>2014-15</b> |   | <b>2015-16</b> |
|----------------|---|----------------|
| <b>£000</b>    |   | <b>£000</b>    |
| -1,887         | Interest from fixed interest securities | -1,720         |
| -3,732         | Income from index-linked securities     | -3,369         |
| -12,330        | Dividends from equities                 | -6,860         |
| -283           | Interest on cash deposits               | -102           |
| -10,897        | Income from pooled investment vehicles  | -10,611        |
| <b>-29,129</b> |   | <b>-22,662</b> |

## 13. Taxation

The Pensions Statement of Recommended Practice (SORP) requires that any withholding tax that is irrecoverable should be disclosed in the Fund Account as a tax charge, however as Investment Managers have not been able to supply information for the full year, no amount of irrecoverable withholding tax has been disclosed.

- **United Kingdom Income Tax**

The Fund is an exempt approved Fund under Section 1(1) Schedule 36 of the Finance Act 2004, and is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.



- **Value Added Tax**

As Durham County Council is the administering authority for the Fund, VAT input tax is recoverable on most fund activities.

- **Foreign Withholding Tax**

Income earned from investments in stocks and securities in the United States, Australia and Belgium is exempt from tax. In all other countries dividends are taxed at source and, where the tax paid at source is greater than the rate of tax under the 'Double Taxation Agreement', the excess tax is reclaimable except in the case of Malaysia.

## 14. Investments

### Analysis by Investment Manager

The following Investment Managers were employed during 2015/16 to manage the Pension Fund's assets:

- Aberdeen Asset Management Limited (Aberdeen)
- AllianceBernstein Limited (AllianceBernstein)
- Bank of New York Mellon Investment Management EMEA Limited (BNYM)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Mondrian Investment Partners Limited (Mondrian)
- Royal London Asset Management (RLAM)

The long-term strategic allocation as at 31 March was as follows:

| 31 March 2015 | Investment Manager | Asset Class                     | 31 March 2016 |
|---------------|--------------------|---------------------------------|---------------|
| %             |                    |                                 | %             |
| 15            | Aberdeen           | Global equities                 | 15            |
| 15            | AllianceBernstein  | Global Bonds                    | 15            |
| 15            | BNYM               | Global equities                 | 15            |
| 20            | Blackrock          | Dynamic Asset Allocation        | 20            |
| 8             | CBRE               | Global property                 | 8             |
| 7             | Mondrian           | Emerging Market Equities        | 7             |
| 20            | Royal London       | Investment grade sterling bonds | 20            |
| <b>100</b>    |                    |                                 | <b>100</b>    |

The actual market values of investments held by each Investment Manager as at 31 March were as follows (the actual allocations vary slightly from the long-term strategic allocations due to market movements):

| 31 March 2015    |               |                    | 31 March 2016    |               |  |
|------------------|---------------|--------------------|------------------|---------------|--|
| £000             | %             | Investment Manager | £000             | %             |  |
| 343,880          | 14.95         | Aberdeen           | 339,124          | 14.79         |  |
| 330,169          | 14.34         | AllianceBernstein  | 341,874          | 14.91         |  |
| 355,519          | 15.45         | BNYM               | 364,837          | 15.91         |  |
| 15,251           | 0.66          | Barings            | 198              | 0.01          |  |
| 467,036          | 20.29         | Blackrock          | 437,983          | 19.10         |  |
| 150,641          | 6.54          | CBRE               | 187,755          | 8.18          |  |
| 157,684          | 6.85          | Mondrian           | 152,726          | 6.66          |  |
| 28               | 0.00          | Other - NEL        | 28               | 0.00          |  |
| 481,558          | 20.92         | RLAM               | 468,712          | 20.44         |  |
| <b>2,301,766</b> | <b>100.00</b> |                    | <b>2,293,237</b> | <b>100.00</b> |  |

The totals in the above table include all assets held by Investment Managers on behalf of the Fund, including cash and derivatives. The total as at 31 March 2016 excludes loans of £0.349m, cash invested by the administering authority of £17.217m, other investment assets of £15.681m and other investment liabilities of £9.734m (£0.375m, £54.269m, £14.151m and £37.354m respectively as at 31 March 2015).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2016, £2.293m (98.99%) is invested through Investment Managers (£2.302m or 98.65% at 31 March 2015).

### Reconciliation of Movements in Investments 2015/16

| Investment category          | Value at<br>31 March<br>2015 | Purchases<br>at cost | Sales<br>proceeds | Change in<br>Asset<br>Classification | Change in<br>market<br>value | Value at<br>31 March<br>2016 |
|------------------------------|------------------------------|----------------------|-------------------|--------------------------------------|------------------------------|------------------------------|
|                              | £000                         | £000                 | £000              | £000                                 | £000                         | £000                         |
| Fixed interest securities    | 87,417                       | 163,548              | -187,356          | 22,142                               | -54,043                      | 31,708                       |
| Equities                     | 264,293                      | 107,977              | -109,440          | -28,958                              | -22,006                      | 211,866                      |
| Index linked securities      | 477,348                      | 1,845,108            | -1,862,768        | -                                    | 8,608                        | 468,296                      |
| Pooled investment vehicles   | 1,362,350                    | 241,681              | -166,237          | 6,816                                | 62,179                       | 1,506,789                    |
|                              | 2,191,408                    | 2,358,314            | -2,325,801        | -                                    | -5,262                       | 2,218,659                    |
| Derivative contracts:        |                              |                      |                   |                                      |                              |                              |
| Futures, margins & options   | 3,102                        | 31,977               | -14,810           |                                      | -3,848                       | 16,421                       |
| Forward foreign currency     | -3,877                       |                      |                   |                                      | -337                         | -4,214                       |
|                              | <b>2,190,633</b>             | <b>2,390,291</b>     | <b>-2,340,611</b> | <b>-</b>                             | <b>-9,447</b>                | <b>2,230,866</b>             |
| Other investment balances:   |                              |                      |                   |                                      |                              |                              |
| Loans                        | 375                          |                      |                   |                                      |                              | 349                          |
| Other cash deposits          | 165,402                      |                      |                   |                                      | -15,508                      | 79,589                       |
| Dividend accruals            | 1,815                        |                      |                   |                                      |                              | 1,925                        |
| Tax recovery                 | 276                          |                      |                   |                                      |                              | 368                          |
| Other investment balances    | -25,294                      |                      |                   |                                      |                              | 3,654                        |
| <b>Net Investment Assets</b> | <b>2,333,207</b>             |                      |                   | <b>-</b>                             | <b>-24,955</b>               | <b>2,316,751</b>             |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

### Reconciliation of Movements in Investments 2014/15

| Investment category          | Value at<br>31 March<br>2014 | Purchases<br>at cost | Sales<br>proceeds | Change in<br>Asset<br>Classification | Change in<br>market<br>value | Value at<br>31 March<br>2015 |
|------------------------------|------------------------------|----------------------|-------------------|--------------------------------------|------------------------------|------------------------------|
|                              | £000                         | £000                 | £000              | £000                                 | £000                         | £000                         |
| Fixed interest securities    | 62,934                       | 339,632              | -348,653          |                                      | 33,504                       | 87,417                       |
| Equities                     | 500,898                      | 2,437,883            | -2,709,504        |                                      | 35,016                       | 264,293                      |
| Index linked securities      | 384,175                      | 1,727,246            | -1,704,313        |                                      | 70,240                       | 477,348                      |
| Pooled investment vehicles   | 1,128,807                    | 2,261,603            | -2,079,377        |                                      | 51,317                       | 1,362,350                    |
|                              | 2,076,814                    | 6,766,364            | -6,841,847        | -                                    | 190,077                      | 2,191,408                    |
| Derivative contracts:        |                              |                      |                   |                                      |                              |                              |
| Futures, margins & options   | 4,716                        | 9,040                | -5,589            |                                      | -5,065                       | 3,102                        |
| Forward foreign currency     | 1,553                        |                      |                   |                                      | -5,430                       | -3,877                       |
|                              | <b>2,083,083</b>             | <b>6,775,404</b>     | <b>-6,847,436</b> | <b>-</b>                             | <b>179,582</b>               | <b>2,190,633</b>             |
| Other investment balances:   |                              |                      |                   |                                      |                              |                              |
| Loans                        | 390                          |                      |                   |                                      |                              | 375                          |
| Other cash deposits          | 76,091                       |                      |                   |                                      | 10,678                       | 165,402                      |
| Dividend accruals            | 4,813                        |                      |                   |                                      |                              | 1,815                        |
| Tax recovery                 | 378                          |                      |                   |                                      |                              | 276                          |
| Other investment balances    | -9,456                       |                      |                   |                                      |                              | -25,294                      |
| <b>Net Investment Assets</b> | <b>2,155,299</b>             |                      |                   | <b>-</b>                             | <b>190,260</b>               | <b>2,333,207</b>             |

**Analysis of Investments**

| 2014-15                                      |                  |  | 2015-16 |                  |
|--|------------------|--|---------|------------------|
| £000   | £000             |  | £000    | £000             |
| <b>ASSETS INVESTED THROUGH FUND MANAGERS</b> |                  |  |         |                  |
| <b>Fixed interest securities</b>             |                  |  |         |                  |
| 16,907                                       |                  | UK - Public sector - quoted                          | -       |                  |
| 70,510                                       |                  | Overseas - Public sector - quoted                    | 31,708  |                  |
|  | 87,417           |  |         | 31,708           |
| <b>Equities</b>                              |                  |  |         |                  |
| 35,502                                       |                  | UK quoted  | 41,520  |                  |
| 28   |                  | UK unquoted  | 28      |                  |
| 228,763                                      |                  | Overseas quoted                                      | 170,318 |                  |
|  | 264,293          |  |         | 211,866          |
| <b>Index linked securities</b>               |                  |  |         |                  |
| 459,206                                      |                  | UK quoted - Public sector                            | 466,549 |                  |
| -  |                  | UK quoted - Corporate                                | -       |                  |
| 18,142                                       |                  | Overseas quoted -Public sector                       | 1,747   |                  |
| -  |                  | Overseas quoted -Corporate                           |         |                  |
|  | 477,348          |  |         | 468,296          |
| <b>Pooled Investment Vehicles</b>            |                  |  |         |                  |
| 68,683                                       |                  | Managed funds - non property - UK quoted             | 2,661   |                  |
| 828,248                                      |                  | Managed funds - non property - overseas quoted       | 976,525 |                  |
| 330,169                                      |                  | Managed funds - non property - overseas unquoted     | 341,874 |                  |
| 3,059  |                  | Unit Trusts - property - UK quoted                   | 1,815   |                  |
| 24,631                                       |                  | Unit Trusts - property - UK unquoted                 | 32,729  |                  |
| 27,038                                       |                  | Unit Trusts - property - Overseas quoted             | 29,804  |                  |
| 80,522                                       |                  | Unit Trusts - property - Overseas unquoted           | 121,381 |                  |
|  | 1,362,350        |  |         | 1,506,789        |
| <b>Derivative Contracts</b>                  |                  |  |         |                  |
| 12,111                                       |                  | Assets   | 57,351  |                  |
| -12,886                                      |                  | Liabilities  | -45,144 |                  |
|  | -775             |  |         | 12,207           |
| 111,133                                      | 111,133          | <b>Fund Managers' cash</b>                           | 62,372  | 62,372           |
| <b>2,301,766</b>                             |                  | <b>NET ASSETS INVESTED THROUGH FUND MANAGERS</b>     |         | <b>2,293,238</b> |
| <b>OTHER INVESTMENT BALANCES</b>             |                  |  |         |                  |
|  | 54,269           | Short term investments (via DCC Treasury Management) |         | 17,217           |
|  | 375              | Loans  |         | 349              |
|  | 14,151           | Other investment assets                              |         | 15,681           |
|  | -37,354          | Other investment liabilities                         |         | -9,734           |
|  | <b>2,333,207</b> | <b>NET INVESTMENT ASSETS</b>                         |         | <b>2,316,751</b> |

**Analysis of Derivatives****Objectives and policies for holding derivatives**

Derivatives are financial instruments that derive their value from the price or rate of some underlying item. Underlying items include equities, bonds, commodities, interest rates, exchange rates and stock market indices.

The Fund uses derivatives to manage its exposure to specific risks arising from its investment activities. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset or hedge against the risk of adverse currency movement on the Fund's investments. The use of derivatives is managed in line with the investment management agreement agreed between the Pension Fund and its Investment Managers.

A summary of the derivative contracts held by the Pension Fund is provided in the following table:

| 2014-15       |                    | Derivative Contracts                            | 2015-16        |                      |
|---------------|--------------------|---|----------------|----------------------|
| £000          | £000               |   | £000           | £000                 |
|               |                    | <b>Forward foreign currency</b>                 |                |                      |
| 1,192         |                    | Assets  | 8,399          |                      |
| <u>-5,069</u> |                    | Liabilities                                     | <u>-12,613</u> |                      |
|               | -3,877             | <b>Net Forward foreign currency</b>             |                | -4,214               |
|               |                    | <b>Futures</b>                                  |                |                      |
| 4,391         |                    | Assets  | 45,703         |                      |
| <u>-4,281</u> |                    | Liabilities                                     | <u>-28,747</u> |                      |
|               | 110                | <b>Net Futures</b>                              |                | 16,956               |
|               |                    | <b>Options</b>                                  |                |                      |
| 6,528         |                    | Assets  | 3,249          |                      |
| <u>-3,536</u> |                    | Liabilities                                     | <u>-3,784</u>  |                      |
|               | 2,992              | <b>Net Options</b>                              |                | -535                 |
|               | <u><u>-775</u></u> | <b>Net market value of derivative contracts</b> |                | <u><u>12,207</u></u> |

The Pension Fund invests in the following types of derivatives:

#### i. Forward Foreign Currency Contracts

Currency is bought and sold by investment managers for future settlement at a predetermined exchange rate. Such contracts are used to hedge against the risk of adverse currency movements on the Fund's investments.

The following tables list all of the forward foreign currency contracts held by the investment managers (BlackRock, CBRE and Royal London) on 31 March 2016 and 31 March 2015.

| Settlement  | Currency bought | Local Value   | Currency sold | Local Value  | Asset Value<br>£000 | Liability<br>Value<br>£000 |
|-------------|-----------------|---------------|---------------|--------------|---------------------|----------------------------|
| 0 to 1 mth  | USD             | 6,570,000     | BRL           | -27,597,285  |                     | -842                       |
| 0 to 1 mth  | USD             | 1,625,000     | BRL           | -6,082,375   |                     | -62                        |
| 0 to 1 mth  | USD             | 1,625,000     | BRL           | -6,113,250   |                     | -68                        |
| 0 to 1 mth  | USD             | 1,565,000     | BRL           | -5,874,228   |                     | -63                        |
| 0 to 1 mth  | USD             | 1,435,000     | BRL           | -5,419,995   |                     | -65                        |
| 0 to 1 mth  | USD             | 3,410,000     | BRL           | -12,484,010  |                     | -76                        |
| 0 to 1 mth  | USD             | 800,000       | BRL           | -2,935,920   |                     | -19                        |
| 0 to 1 mth  | USD             | 800,000       | BRL           | -2,938,000   |                     | -20                        |
| 0 to 1 mth  | USD             | 1,190,000     | BRL           | -4,366,705   |                     | -29                        |
| 0 to 1 mth  | GBP             | 11,514,280    | CAD           | -23,200,000  |                     | -965                       |
| 0 to 1 mth  | CAD             | 19,007,137    | USD           | -13,480,000  | 845                 |                            |
| 0 to 1 mth  | GBP             | 2,208,084     | CHF           | -3,200,000   |                     | -117                       |
| 0 to 1 mth  | USD             | 12,960,000    | CHF           | -13,082,291  |                     | -489                       |
| 0 to 1 mth  | USD             | 6,400,000     | CNH           | -42,732,800  |                     | -151                       |
| 1 to 3 mths | USD             | 3,690,000     | CNH           | -24,261,750  |                     | -37                        |
| 1 to 3 mths | USD             | 2,460,000     | CNH           | -16,188,030  |                     | -26                        |
| 1 to 3 mths | USD             | 2,460,000     | CNH           | -16,195,410  |                     | -27                        |
| 1 to 3 mths | USD             | 1,230,000     | CNH           | -8,086,020   |                     | -12                        |
| 1 to 3 mths | USD             | 2,460,000     | CNH           | -16,164,660  |                     | -24                        |
| 1 to 3 mths | USD             | 6,200,000     | CNH           | -40,771,200  |                     | -63                        |
| 0 to 1 mth  | CZK             | 2,738,908     | EUR           | -101,354     |                     | 0                          |
| 0 to 1 mth  | CZK             | 3,652,185     | EUR           | -135,139     |                     | 0                          |
| 0 to 1 mth  | CZK             | 19,322,232    | EUR           | -715,000     |                     | -1                         |
| 0 to 1 mth  | CZK             | 19,454,429    | EUR           | -720,000     |                     | -1                         |
| 0 to 1 mth  | CZK             | 23,781,208    | EUR           | -880,000     |                     | -1                         |
| 0 to 1 mth  | CZK             | 34,317,940    | EUR           | -1,270,000   |                     | -1                         |
| 0 to 1 mth  | CZK             | 37,155,250    | EUR           | -1,375,000   |                     | -1                         |
| 0 to 1 mth  | CZK             | 14,956,854    | EUR           | -553,507     |                     | 0                          |
| 0 to 1 mth  | GBP             | 35,896,878    | EUR           | -47,110,000  |                     | -1,457                     |
| 0 to 1 mth  | EUR             | 1,263,686     | GBP           | -983,375     | 19                  |                            |
| 0 to 1 mth  | EUR             | 718,330       | GBP           | -558,678     | 11                  |                            |
| 0 to 1 mth  | EUR             | 3,447,984     | GBP           | -2,678,287   | 56                  |                            |
| 0 to 1 mth  | PLN             | 1,283,346     | EUR           | -284,341     | 14                  |                            |
| 0 to 1 mth  | PLN             | 10,243,901    | EUR           | -2,271,318   | 114                 |                            |
| 0 to 1 mth  | PLN             | 1,283,203     | EUR           | -284,341     | 14                  |                            |
| 0 to 1 mth  | EUR             | 444,157       | PLN           | -1,995,053   |                     | -21                        |
| 0 to 1 mth  | EUR             | 465,803       | PLN           | -2,087,475   |                     | -21                        |
| 0 to 1 mth  | EUR             | 310,535       | PLN           | -1,392,207   |                     | -14                        |
| 0 to 1 mth  | EUR             | 660,000       | PLN           | -2,952,774   |                     | -29                        |
| 0 to 1 mth  | EUR             | 959,505       | PLN           | -4,295,190   |                     | -42                        |
| 0 to 1 mth  | EUR             | 405,368       | PLN           | -1,790,838   |                     | -13                        |
| 0 to 1 mth  | EUR             | 1,621,472     | PLN           | -7,165,448   |                     | -54                        |
| 0 to 1 mth  | EUR             | 1,690,349     | PLN           | -7,467,660   |                     | -56                        |
| 0 to 1 mth  | EUR             | 1,782,810     | PLN           | -7,874,719   |                     | -58                        |
| 0 to 1 mth  | USD             | 7,780,766     | EUR           | -7,118,116   |                     | -231                       |
| 0 to 1 mth  | USD             | 4,462,079     | EUR           | -4,081,884   |                     | -132                       |
| 0 to 1 mth  | EUR             | 12,680,000    | USD           | -13,866,975  | 406                 |                            |
| 0 to 1 mth  | EUR             | 11,539,165    | USD           | -12,610,000  | 376                 |                            |
| 0 to 1 mth  | USD             | 1,773,157     | EUR           | -1,614,764   |                     | -47                        |
| 0 to 1 mth  | USD             | 3,545,863     | EUR           | -3,229,527   |                     | -94                        |
| 0 to 1 mth  | USD             | 829,829       | EUR           | -755,709     |                     | -22                        |
| 0 to 1 mth  | JPY             | 7,232,000,000 | GBP           | -42,614,750  | 2,158               |                            |
| 0 to 1 mth  | GBP             | 123,931,734   | USD           | -177,890,000 | 166                 |                            |
| 0 to 1 mth  | USD             | 10,500,000    | GBP           | -7,229,025   | 76                  |                            |
| 0 to 1 mth  | GBP             | 4,192,931     | USD           | -6,000,000   | 18                  |                            |
| 0 to 1 mth  | USD             | 5,227,126     | GBP           | -3,654,996   |                     | -18                        |
| 0 to 1 mth  | USD             | 7,019,027     | GBP           | -4,905,004   |                     | -22                        |
| 0 to 1 mth  | GBP             | 900,000       | ZAR           | -21,420,270  |                     | -113                       |
| 0 to 1 mth  | GBP             | 4,300,000     | ZAR           | -102,276,317 |                     | -535                       |
| 0 to 1 mth  | ZAR             | 39,954,031    | GBP           | -1,785,157   | 104                 |                            |

| Settlement | Currency bought | Local Value   | Currency sold | Local Value     | Asset Value<br>£000 | Liability Value<br>£000 |
|------------|-----------------|---------------|---------------|-----------------|---------------------|-------------------------|
| 0 to 1 mth | ZAR             | 39,353,824    | GBP           | -1,759,095      | 101                 |                         |
| 0 to 1 mth | ZAR             | 20,855,035    | GBP           | -931,404        | 55                  |                         |
| 0 to 1 mth | ZAR             | 16,097,274    | GBP           | -724,344        | 37                  |                         |
| 0 to 1 mth | INR             | 207,552,500   | USD           | -3,050,000      | 58                  |                         |
| 0 to 1 mth | INR             | 83,057,600    | USD           | -1,220,000      | 24                  |                         |
| 0 to 1 mth | INR             | 83,057,600    | USD           | -1,220,000      | 24                  |                         |
| 0 to 1 mth | INR             | 16,053,953    | USD           | -235,983        | 4                   |                         |
| 0 to 1 mth | INR             | 21,364,431    | USD           | -314,017        | 6                   |                         |
| 0 to 1 mth | INR             | 128,707,431   | USD           | -1,890,000      | 37                  |                         |
| 0 to 1 mth | INR             | 41,482,440    | USD           | -610,000        | 11                  |                         |
| 0 to 1 mth | INR             | 124,513,200   | USD           | -1,830,000      | 35                  |                         |
| 0 to 1 mth | INR             | 41,443,400    | USD           | -610,000        | 11                  |                         |
| 0 to 1 mth | INR             | 20,730,850    | USD           | -305,000        | 6                   |                         |
| 0 to 1 mth | INR             | 62,172,420    | USD           | -915,000        | 17                  |                         |
| 0 to 1 mth | USD             | 55,640,000    | JPY           | -6,596,711,784  |                     | -2,128                  |
| 0 to 1 mth | USD             | 6,843,881     | JPY           | -769,362,681    |                     | -1                      |
| 0 to 1 mth | USD             | 4,856,119     | JPY           | -546,064,119    |                     | -2                      |
| 0 to 1 mth | USD             | 4,090,000     | JPY           | -462,979,820    |                     | -21                     |
| 0 to 1 mth | USD             | 8,310,000     | JPY           | -940,440,190    |                     | -41                     |
| 0 to 1 mth | USD             | 6,200,000     | JPY           | -703,700,000    |                     | -43                     |
| 0 to 1 mth | USD             | 10,035,779    | KRW           | -12,036,411,784 |                     | -357                    |
| 0 to 1 mth | USD             | 3,330,000     | KRW           | -3,981,847,500  |                     | -111                    |
| 0 to 1 mth | USD             | 1,150,000     | KRW           | -1,375,630,000  |                     | -39                     |
| 0 to 1 mth | USD             | 1,150,000     | KRW           | -1,378,562,500  |                     | -41                     |
| 0 to 1 mth | USD             | 770,000       | KRW           | -926,002,000    |                     | -29                     |
| 0 to 1 mth | KRW             | 5,182,160,000 | USD           | -4,220,000      | 224                 |                         |
| 0 to 1 mth | KRW             | 5,173,604,234 | USD           | -4,215,779      | 222                 |                         |
| 0 to 1 mth | USD             | 7,800,000     | KRW           | -9,406,800,000  |                     | -309                    |
| 0 to 1 mth | MXN             | 122,315,661   | USD           | -6,570,000      | 393                 |                         |
| 0 to 1 mth | MXN             | 29,237,608    | USD           | -1,550,000      | 108                 |                         |
| 0 to 1 mth | MXN             | 17,550,681    | USD           | -930,000        | 65                  |                         |
| 0 to 1 mth | MXN             | 12,820,205    | USD           | -676,640        | 50                  |                         |
| 0 to 1 mth | MXN             | 6,401,019     | USD           | -338,320        | 24                  |                         |
| 0 to 1 mth | MXN             | 6,412,860     | USD           | -338,320        | 25                  |                         |
| 0 to 1 mth | MXN             | 6,024,034     | USD           | -320,000        | 22                  |                         |
| 0 to 1 mth | MXN             | 38,566,328    | USD           | -2,046,719      | 141                 |                         |
| 0 to 1 mth | USD             | 1,550,000     | MXN           | -27,764,375     |                     | -48                     |
| 0 to 1 mth | USD             | 1,550,000     | MXN           | -27,786,385     |                     | -49                     |
| 0 to 1 mth | USD             | 166,177       | MXN           | -2,985,357      |                     | -6                      |
| 0 to 1 mth | USD             | 2,185,585     | MXN           | -39,203,448     |                     | -70                     |
| 0 to 1 mth | USD             | 336,244       | MXN           | -6,023,506      |                     | -10                     |
| 0 to 1 mth | USD             | 411,994       | MXN           | -7,373,570      |                     | -13                     |
| 0 to 1 mth | USD             | 1,550,000     | MYR           | -6,491,400      |                     | -83                     |
| 0 to 1 mth | USD             | 930,000       | MYR           | -3,908,790      |                     | -52                     |
| 0 to 1 mth | USD             | 1,240,000     | MYR           | -5,246,440      |                     | -76                     |
| 0 to 1 mth | USD             | 310,000       | MYR           | -1,311,610      |                     | -19                     |
| 0 to 1 mth | USD             | 310,000       | MYR           | -1,308,200      |                     | -18                     |
| 0 to 1 mth | USD             | 1,860,000     | MYR           | -7,863,150      |                     | -113                    |
| 0 to 1 mth | MYR             | 10,423,440    | USD           | -2,480,000      | 139                 |                         |
| 0 to 1 mth | MYR             | 9,109,660     | USD           | -2,170,000      | 120                 |                         |
| 0 to 1 mth | MYR             | 6,513,875     | USD           | -1,550,000      | 87                  |                         |
| 0 to 1 mth | PHP             | 627,393,600   | USD           | -12,960,000     | 484                 |                         |
| 0 to 1 mth | USD             | 3,293,288     | PHP           | -153,697,751    |                     | -36                     |
| 0 to 1 mth | USD             | 3,186,712     | PHP           | -149,201,856    |                     | -42                     |
| 0 to 1 mth | USD             | 3,240,000     | PHP           | -151,729,200    |                     | -43                     |
| 0 to 1 mth | USD             | 3,240,000     | PHP           | -151,777,800    |                     | -44                     |
| 0 to 1 mth | USD             | 2,800,000     | SGD           | -4,005,120      |                     | -121                    |
| 0 to 1 mth | USD             | 6,900,000     | SGD           | -9,879,627      |                     | -304                    |
| 0 to 1 mth | USD             | 1,500,000     | TRY           | -4,612,346      |                     | -94                     |
| 0 to 1 mth | USD             | 1,500,000     | TRY           | -4,607,025      |                     | -93                     |
| 0 to 1 mth | USD             | 6,600,000     | TRY           | -20,239,560     |                     | -400                    |
| 0 to 1 mth | USD             | 6,200,000     | TRY           | -17,919,308     |                     | -106                    |

| Settlement   | Currency bought | Local Value   | Currency sold | Local Value  | Asset Value<br>£000 | Liability<br>Value<br>£000 |
|--|-----------------|---------------|---------------|--------------|---------------------|----------------------------|
| 0 to 1 mth   | USD             | 1,680,000     | TWD           | -56,280,000  |                     | -48                        |
| 0 to 1 mth   | USD             | 13,520,000    | TWD           | -454,069,200 |                     | -413                       |
| 0 to 1 mth   | USD             | 3,390,000     | TWD           | -112,209,000 |                     | -68                        |
| 0 to 1 mth   | USD             | 1,345,000     | TWD           | -44,707,800  |                     | -31                        |
| 0 to 1 mth   | USD             | 1,665,000     | TWD           | -55,394,550  |                     | -39                        |
| 0 to 1 mth   | TWD             | 179,722,800   | USD           | -5,400,000   | 130                 |                            |
| 0 to 1 mth   | TWD             | 179,604,000   | USD           | -5,400,000   | 127                 |                            |
| 0 to 1 mth   | USD             | 3,410,000     | TWD           | -111,728,650 |                     | -44                        |
| 0 to 1 mth   | USD             | 1,650,000     | TWD           | -54,095,250  |                     | -22                        |
| 0 to 1 mth   | USD             | 2,090,000     | TWD           | -68,572,900  |                     | -29                        |
| 0 to 1 mth   | USD             | 3,850,000     | TWD           | -126,434,000 |                     | -55                        |
| 0 to 1 mth   | TWD             | 350,217,000   | USD           | -10,900,000  |                     | -10                        |
| 0 to 1 mth   | TWD             | 351,198,000   | USD           | -10,900,000  | 11                  |                            |
| 1 to 3 mths  | USD             | 10,900,000    | TWD           | -349,879,100 |                     | 0                          |
| 1 to 3 mths  | USD             | 10,900,000    | TWD           | -351,034,500 |                     | -25                        |
| 1 to 3 mths  | AUD             | 10,869,651    | GBP           | 5,717,559    |                     | -75                        |
| 1 to 3 mths  | EUR             | 40,824,558    | GBP           | 32,071,773   |                     | -373                       |
| 1 to 3 mths  | USD             | 91,045,309    | GBP           | 64,420,370   | 1,095               |                            |
| 1 to 3 mths  | JPY             | 1,325,912,724 | GBP           | 8,281,778    | 55                  |                            |
| 1 to 3 mths  | MYR             | 18,690,782    | GBP           | 3,179,245    |                     | -177                       |
| 1 to 3 mths  | AUD             | 4,408,489     | GBP           | 2,318,915    |                     | -30                        |
| 1 to 3 mths  | USD             | 572,793       | GBP           | 405,288      | 7                   |                            |
| 1 to 3 mths  | JPY             | 604,551,839   | GBP           | 3,776,089    | 25                  |                            |
| 1 to 3 mths  | CNY             | 11,948,588    | GBP           | 1,287,772    | 7                   |                            |
| 1 to 3 mths  | EUR             | 6,423,145     | GBP           | 5,046,023    |                     | -59                        |
| 1 to 3 mths  | GBP             | 2,924,865     | AUD           | -5,478,896   | 4                   |                            |
| 1 to 3 mths  | GBP             | 3,169,203     | SEK           | -36,991,710  |                     | -14                        |
| 1 to 3 mths  | SEK             | 36,190,874    | GBP           | -3,084,980   | 29                  |                            |
| 1 to 3 mths  | AUD             | 2,194,000     | GBP           | -1,167,386   | 2                   |                            |
|  |                 |               |               |              | <b>8,399</b>        | <b>-12,613</b>             |
| <b>Net forward foreign currency contracts at 31 March 2016</b> |                 |               |               |              |                     | <b>-4,214</b>              |



| Settlement   | Currency bought | Local Value      | Currency sold | Local Value       | Asset Value<br>£000 | Liability Value<br>£000 |
|--|-----------------|------------------|---------------|-------------------|---------------------|-------------------------|
| 0 to 1 mth   | EUR             | 5,100,000.00     | GBP           | -3,732,129.00     |                     | -42                     |
| 3 to 6 mths  | NZD             | 17,200,000.00    | AUD           | -16,585,187.11    | 132                 |                         |
| 1 to 3 mths  | USD             | 2,557,275.54     | BRL           | -8,260,000.00     | 12                  |                         |
| 3 to 6 mths  | GBP             | 11,256,844.00    | EUR           | -15,500,000.00    | 29                  |                         |
| 3 to 6 mths  | GBP             | 11,259,448.00    | EUR           | -15,500,000.00    | 32                  |                         |
| 1 to 3 mths  | GBP             | 3,736,795.50     | EUR           | -5,100,000.00     | 42                  |                         |
| 3 to 6 mths  | GBP             | 4,162,669.31     | JPY           | -768,000,000.00   |                     | -157                    |
| 1 to 3 mths  | JPY             | 5,000,000,000.00 | GBP           | -28,061,902.99    | 59                  |                         |
| 3 to 6 mths  | GBP             | 56,446,618.88    | USD           | -87,050,000.00    |                     | -2,218                  |
| 3 to 6 mths  | GBP             | 56,436,847.78    | USD           | -87,050,000.00    |                     | -2,227                  |
| 3 to 6 mths  | USD             | 12,752,563.41    | HUF           | -3,460,000,000.00 | 252                 |                         |
| 3 to 6 mths  | USD             | 75,800,000.00    | JPY           | -9,066,134,800.00 | 94                  |                         |
| 3 to 6 mths  | EUR             | 27,078,254       | GBP           | 19,927,681        | 302                 |                         |
| 3 to 6 mths  | USD             | 67,078,960       | GBP           | 44,830,327        |                     | -383                    |
| 3 to 6 mths  | JPY             | 1,178,741,889    | GBP           | 6,647,664         | 14                  |                         |
| 3 to 6 mths  | AUD             | 9,765,023        | GBP           | 5,120,916         | 117                 |                         |
| 3 to 6 mths  | MYR             | 18,020,057       | GBP           | 3,256,833         | 4                   |                         |
| 3 to 6 mths  | AUD             | 1,438,103        | GBP           | 754,161           | 17                  |                         |
| 3 to 6 mths  | JPY             | 429,261,483      | GBP           | 2,420,874         | 5                   |                         |
| 3 to 6 mths  | USD             | 582,557          | GBP           | 389,336           |                     | -3                      |
| 3 to 6 mths  | CNY             | 3,252,057        | GBP           | 350,607           |                     | -4                      |
| 1 to 3 mths  | GBP             | 7,756,376.19     | USD           | -11,529,000.00    |                     | -14                     |
| 1 to 3 mths  | GBP             | 1,290,150.73     | CAD           | -2,412,000.00     | 8                   |                         |
| 1 to 3 mths  | GBP             | 1,989,069.18     | USD           | -2,965,000.00     |                     | -9                      |
| 1 to 3 mths  | GBP             | 2,425,139.39     | USD           | -3,615,026.76     |                     | -12                     |
| 1 to 3 mths  | GBP             | 4,339,425.44     | EUR           | -5,887,000.00     | 73                  |                         |
|  |                 |                  |               |                   | <b>1,192</b>        | <b>-5,069</b>           |
| <b>Net forward foreign currency contracts at 31 March 2015</b> |                 |                  |               |                   |                     | <b>-3,877</b>           |

**ii. Futures**

When there is a requirement to hold cash assets, but the Investment Manager does not want this cash to be out of the market, index based futures contracts are bought which have an underlying economic value broadly equivalent to the cash held in anticipation of cash outflow required. Outstanding exchange traded futures contracts, held by BlackRock are as follows:

|   | Expires     | Product Description                   | Currency | Market Value at 31 March 16 |               |
|---|-------------|---------------------------------------|----------|-----------------------------|---------------|
|   |             |                                       |          | £000                        | £000          |
| <b>Assets</b>                                 |             |                                       |          |                             |               |
| Overseas fixed interest                       | 1 to 3 mths | AUST 10YR BOND JUN<br>16 15/6/2016    | AUD      | 20,325                      |               |
| Overseas equity                               | 1 to 3 mths | S&P500 EMINI JUN 16                   | USD      | 9,492                       |               |
| Overseas equity                               | 1 to 3 mths | E-MINI CONSUMER<br>STAPLES JUN 16     | USD      | 9,164                       |               |
| Overseas fixed interest                       | 1 to 3 mths | US ULTRA T-BOND JUN<br>16 21/6/2016   | USD      | 6,722                       |               |
| <b>Total assets</b>                           |             |                                       |          |                             | 45,703        |
| <b>Liabilities</b>                            |             |                                       |          |                             |               |
| Overseas equity                               | 1 to 3 mths | E-MINI UTILITIES<br>SELECT SECTOR JUN | USD      | -9,208                      |               |
| Overseas equity                               | 1 to 3 mths | STOXX 600 INDUS JUN<br>16             | EUR      | -19,539                     |               |
| <b>Total liabilities</b>                      |             |                                       |          |                             | -28,747       |
| <b>Net Futures Contracts at 31 March 2016</b> |             |                                       |          |                             | <u>16,956</u> |

|   | Expires     | Product Description   | Currency | Market Value at 31 March 15 |            |
|---|-------------|-----------------------|----------|-----------------------------|------------|
|   |             |                       |          | £000                        | £000       |
| <b>Assets</b>                                 |             |                       |          |                             |            |
| Overseas equity                               | 1 to 3 mths | FTSE CHINA A50 APR 15 | USD      | 4,391                       |            |
| <b>Total assets</b>                           |             |                       |          |                             | 4,391      |
| <b>Liabilities</b>                            |             |                       |          |                             |            |
| Overseas equity                               | 3 to 6 mths | STOXX 600 BAS JUN 15  | EUR      | -4,281                      |            |
| <b>Total liabilities</b>                      |             |                       |          |                             | -4,281     |
| <b>Net Futures Contracts at 31 March 2015</b> |             |                       |          |                             | <u>110</u> |

**iii. Options**

In order to benefit from potentially greater returns available from investing in equities whilst minimising the risk of loss of value through adverse equity price movements, the Fund, via Blackrock, has bought a number of equity option contracts. These option contracts are to protect it from falls in value in the main markets in which it is invested.

| Type                                | Expires       | Product Description   | Currency | Market Value at<br>31 March 16<br>£000 |
|-------------------------------------|---------------|---|----------|--|
| <b>Assets</b>                       |               |   |          |  |
| Overseas equity                     | 1 to 3 mths   | EURO STOXX 50 INDEX 01-JAN-2050<br>17/6/2016 C @ 2925.000   | EUR      | 930                                    |
| Overseas equity                     | 1 to 3 mths   | EURO STOXX 50 INDEX 01-JAN-2050<br>17/6/2016 P @ 2925.000   | EUR      | 518                                    |
| Overseas equity                     | 1 to 5 years  | S&P 500 INDEX 15/12/2017 P @ 2000.000                       | USD      | 491                                    |
| Overseas equity                     | 1 to 3 mths   | S&P 500 INDEX 17/6/2016 C @ 2075.000                        | USD      | 450                                    |
| Overseas equity                     | 1 to 3 mths   | MSCI EMERGING MARKETS INDEX<br>23/5/2016 C @ 875.000        | USD      | 351                                    |
| UK equity                           | 1 to 3 mths   | FTSE 100 INDEX 20/5/2016 P @ 6000.000                       | GBP      | 204                                    |
| Overseas equity                     | 1 to 3 mths   | SPX VOLATILITY INDEX UX 01-JAN-2050<br>18/5/2016 C @ 23.000 | USD      | 183                                    |
| Overseas equity                     | 1 to 5 years  | EURO STOXX 50 INDEX 01-JAN-2050<br>15/12/2017 C @ 4000.000  | EUR      | 90                                     |
| Overseas fixed interest             | 0 to 1 mth    | APR16 EDM7 P @ 98.75  | USD      | 13                                     |
| Overseas fixed interest             | 1 to 3 mths   | USD C SGD P @1.420000 EO                                    | USD      | 9                                      |
| Overseas fixed interest             | 3 to 6 months | EUR P CZK C @25.75000 EO                                    | EUR      | 8                                      |
| Overseas fixed interest             | 3 to 6 months | EUR P CZK C @25.75000 EO                                    | EUR      | 2                                      |
| <b>Total assets</b>                 |               |   |          | <b>3,249</b>                           |
| <b>Liabilities</b>                  |               |   |          |  |
| Overseas fixed interest             | 1 to 3 mths   | USD C SGD P @1.450000 EO                                    | USD      | -1                                     |
| Overseas equity                     | 0 to 1 mth    | EURO STOXX 50 INDEX 01-JAN-2050<br>15/4/2016 C @ 3100.000   | EUR      | -35                                    |
| UK equity                           | 1 to 3 mths   | FTSE 100 INDEX 20/5/2016 P @ 5750.000                       | GBP      | -60                                    |
| Overseas equity                     | 1 to 3 mths   | MSCI EMERGING MARKETS INDEX<br>23/5/2016 C @ 925.000        | USD      | -111                                   |
| Overseas equity                     | 1 to 3 mths   | EURO STOXX UTILITIES (PRICE) INDEX<br>17/6/2016 P @ 235.000 | EUR      | -143                                   |
| Overseas equity                     | 1 to 3 mths   | EURO STOXX 50 INDEX 01-JAN-2050<br>17/6/2016 C @ 3200.000   | EUR      | -153                                   |
| Overseas equity                     | 1 to 3 mths   | SPX VOLATILITY INDEX UX 01-JAN-2050<br>18/5/2016 C @ 30.000 | USD      | -155                                   |
| Overseas equity                     | 1 to 3 mths   | EURO STOXX 50 INDEX 01-JAN-2050<br>17/6/2016 P @ 2975.000   | EUR      | -207                                   |
| Overseas equity                     | 1 to 3 mths   | EURO STOXX 50 INDEX 01-JAN-2050<br>17/6/2016 P @ 2800.000   | EUR      | -325                                   |
| Overseas equity                     | 1 to 5 years  | S&P 500 INDEX 15/12/2017 P @ 1875.000                       | USD      | -372                                   |
| Overseas equity                     | 1 to 3 mths   | S&P 500 INDEX 17/6/2016 C @ 1875.000                        | USD      | -2222                                  |
| <b>Total liabilities</b>            |               |   |          | <b>-3,784</b>                          |
| <b>Net Options at 31 March 2016</b> |               |   |          | <b>-535</b>                            |

| Type                                | Expires        | Product Description               | Currency | Market Value at<br>31 March 15<br>£000 |
|-------------------------------------|----------------|-----------------------------------|----------|--|
| <b>Assets</b>                       |                |                                   |          |  |
| Overseas equity                     | less than 1 yr | SPX VOLATILITY INDEX APR P @ 14.5 | USD      | 98                                     |
| Overseas equity                     | less than 1 yr | S&P 500 JUN P @ 2000              | USD      | 161                                    |
| Overseas equity                     | 3 to 6 mths    | EURO STOXX 50 JUN P @ 3550        | EUR      | 235                                    |
| Overseas equity                     | less than 1 yr | EURO STOXX UTILITIES              | EUR      | 272                                    |
| Overseas equity                     | less than 1 yr | S&P 500 DEC P @ 2075              | USD      | 330                                    |
| UK equity                           | less than 1 yr | FTSE 100 INDEX MAY P @ 6800       | GBP      | 532                                    |
| Overseas equity                     | less than 1 yr | S&P 500 DEC P @ 2050              | USD      | 615                                    |
| Overseas equity                     | 1 to 5 yrs     | S&P 500 DEC P @ 2000              | USD      | 634                                    |
| Overseas equity                     | less than 1 yr | S&P 500 DEC P @ 2000              | USD      | 789                                    |
| Overseas equity                     | less than 1 yr | NIKKEI 225 JUN P @ 18500          | JPY      | 821                                    |
| Overseas equity                     | less than 1 yr | SPX VOLATILITY INDEX JUN C @ 20   | USD      | 854                                    |
| Overseas equity                     | less than 1 yr | EURO STOXX 50 DEC C @ 4000        | EUR      | 1,187                                  |
| <b>Total assets</b>                 |                |                                   |          | <b>6,528</b>                           |
| <b>Liabilities</b>                  |                |                                   |          |  |
| Overseas equity                     | less than 1 yr | NIKKEI 225 JUN P @ 19500          | JPY      | -831                                   |
| Overseas equity                     | 1 to 5 yrs     | S&P 500 DEC P @ 1875              | USD      | -510                                   |
| Overseas equity                     | less than 1 yr | S&P 500 DEC P @ 1950              | USD      | -438                                   |
| Overseas equity                     | less than 1 yr | S&P 500 DEC P @ 1875              | USD      | -343                                   |
| Overseas equity                     | less than 1 yr | EURO STOXX UTILITIES              | EUR      | -319                                   |
| Overseas equity                     | less than 1 yr | S&P 500 DEC P @ 1975              | USD      | -236                                   |
| Overseas equity                     | 3 to 6 mths    | EURO STOXX 50 JUN P @ 3350        | EUR      | -233                                   |
| Overseas equity                     | less than 1 yr | S&P 500 DEC P @ 1900              | USD      | -187                                   |
| Overseas equity                     | less than 1 yr | S&P 500 JUN P @ 1900              | USD      | -166                                   |
| UK equity                           | less than 1 yr | FTSE 100 INDEX MAY P @ 6400       | GBP      | -155                                   |
| UK equity                           | less than 1 yr | FTSE 100 INDEX MAY C @ 7000       | GBP      | -118                                   |
| <b>Total liabilities</b>            |                |                                   |          | <b>-3,536</b>                          |
| <b>Net Options at 31 March 2015</b> |                |                                   |          | <b>2,992</b>                           |

**Investments Exceeding 5% of the Market Value of the Fund**

The investments in the following table individually represented more than 5% of the Pension Fund's total net assets available for benefits at 31 March:

| Name of Fund                 | Investment Manager | At 31 March 2016 |       | At 31 March 2015 |       |
|------------------------------|--------------------|------------------|-------|------------------|-------|
|                              |                    | £m               | %     | £m               | %     |
| BNYM Long Term Global Equity | BNY Mellon         | 364.8            | 15.91 | 355.5            | 15.23 |
| AAM L and P World Equity     | Aberdeen           | 339.1            | 14.79 | 343.9            | 14.73 |
| Diversified Yield Plus       | AllianceBernstein  | 341.9            | 14.91 | 330.2            | 14.14 |

Single investments with a market value exceeding 5% of their type of asset are listed as follows:

**At 31 March 2016**

| Holding                                | Investment Manager | £000    | %     |
|--|--------------------|---------|-------|
| <b>Fixed Interest Securities</b>       |                    |         |       |
| TREASURY (CPI) NOTE 0.375 15/7/2025    | BlackRock          | 19,969  | 62.98 |
| TREASURY (CPI) NOTE 0.625 15/1/2026    | BlackRock          | 6,376   | 20.11 |
| PORTUGAL (REPUBLIC OF) 3.875 15/2/2030 | BlackRock          | 2,420   | 7.63  |
| PORTUGAL (REPUBLIC OF) 2.875 21/7/2026 | BlackRock          | 1,606   | 5.06  |
| <b>Equities</b>                        |                    |         |       |
| ISHARES GOLD TRUST                     | BlackRock          | 17,363  | 8.20  |
| <b>Index Linked Securities</b>         |                    |         |       |
| UK Treasury 0.625% IL 22/11/2042       | Royal London       | 37,989  | 8.11  |
| UK Treasury 1.25% IL 22/11/2032        | Royal London       | 35,829  | 7.65  |
| UK Treasury 0.5% IL Gilt 22/03/2050    | Royal London       | 35,727  | 7.63  |
| UK Treasury 2.5% IL 17/07/24           | Royal London       | 32,874  | 7.02  |
| UK Treasury 0.625% IL 22/03/2040       | Royal London       | 30,223  | 6.45  |
| UK Treasury 0.25% IL 22/03/2052        | Royal London       | 25,532  | 5.45  |
| UK Treasury 0.375% IL 22/03/2062       | Royal London       | 24,807  | 5.30  |
| UK Treasury 1.25% IL Gilt 22/11/2055   | Royal London       | 24,665  | 5.27  |
| UK Treasury 0.125% IL 22/03/2068       | Royal London       | 24,051  | 5.14  |
| UK Treasury 1.25% IL Gilt 22/11/2027   | Royal London       | 23,971  | 5.12  |
| <b>Pooled Investment Vehicles</b>      |                    |         |       |
| BNYM Long Term Global Equity           | BNYM               | 364,837 | 24.21 |
| Diversified Yield Plus                 | AllianceBernstein  | 341,874 | 22.69 |
| AAM L and P World Equity               | Aberdeen           | 339,124 | 22.51 |
| BGF GLOBAL CORP BND X4RF GBP HDG       | BlackRock          | 108,805 | 7.22  |
| ICS INS GBP LIQ AGENCY DIS             | BlackRock          | 77,739  | 5.16  |

**At 31 March 2015**

| <b>Holding</b>                    | <b>Investment Manager</b> | <b>£000</b> | <b>%</b> |
|-----------------------------------|---------------------------|-------------|----------|
| <b>Fixed Interest Securities</b>  |                           |             |          |
| UK Treasury Stock 2% 26/01/35     | Royal London              | 18,578      | 21.25    |
| Italy 4.5% 01/03/2024             | BlackRock                 | 12,451      | 14.24    |
| Brazil 6% 15/08/22                | BlackRock                 | 9,515       | 10.88    |
| Treasury Bd 15/11/44              | BlackRock                 | 7,390       | 8.45     |
| Spain 5.150%                      | BlackRock                 | 4,620       | 5.29     |
| <b>Equities</b>                   |                           |             |          |
| <b>Index Linked Securities</b>    |                           |             |          |
| UK Treasury 1.875% IL 2022        | Royal London              | 52,680      | 11.04    |
| UK Treasury 0.75% IL 22/03/2034   | Royal London              | 46,731      | 9.79     |
| UK Treasury 0.50% IL 22/03/2050   | Royal London              | 39,000      | 8.17     |
| UK Treasury 2.5% I.L. 17/07/24    | Royal London              | 35,161      | 7.37     |
| UK Treasury 0.125% I.L. 22/03/44  | Royal London              | 28,668      | 6.01     |
| UK Treasury 0.375% I.L. 22/03/62  | Royal London              | 26,413      | 5.53     |
| UK Treasury 0.25% I.L. 22/03/52   | Royal London              | 25,175      | 5.27     |
| <b>Pooled Investment Vehicles</b> |                           |             |          |
| BNYM Long Term Global Equity      | BNY Mellon                | 355,519     | 26.10    |
| AAM L and P World Equity          | Aberdeen                  | 343,880     | 25.24    |
| Diversified Yield Plus            | AllianceBernstein         | 330,169     | 24.24    |
| BGF Global Corp                   | BlackRock                 | 89,911      | 6.60     |

## 15. Financial Instruments

### Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading:

| 2014-15                            |                       |   | 2015-16                            |                       |   |
|------------------------------------|-----------------------|---|------------------------------------|-----------------------|---|
| Fair value through profit and loss | Loans and receivables | Financial liabilities at amortised cost | Fair value through profit and loss | Loans and receivables | Financial liabilities at amortised cost |
| £000                               | £000                  | £000                                    | £000                               | £000                  | £000                                    |
| <b>Financial assets</b>            |                       |   |                                    |                       |   |
| 87,417                             |                       |   | 31,708                             |                       |   |
| 264,293                            |                       |   | 211,866                            |                       |   |
| 477,348                            |                       |   | 468,296                            |                       |   |
| 1,362,350                          |                       |   | 1,506,789                          |                       |   |
| 12,111                             |                       |   | 57,351                             |                       |   |
|                                    | 375                   |   |                                    | 349                   |   |
|                                    | 111,133               |   |                                    | 62,372                |   |
|                                    | 54,269                |   |                                    | 17,217                |   |
| 14,151                             |                       |   | 15,681                             |                       |   |
|                                    | 11,181                |   |                                    | 10,581                |   |
| <u>2,217,670</u>                   | <u>176,958</u>        | <u>-</u>                                | <u>2,291,691</u>                   | <u>90,519</u>         | <u>-</u>                                |
| <b>Financial liabilities</b>       |                       |   |                                    |                       |   |
| -12,886                            |                       |   | -45,144                            |                       |   |
| -37,354                            |                       | -9,413                                  | -9,734                             |                       | -6,115                                  |
| <u>-50,240</u>                     | <u>-</u>              | <u>-9,413</u>                           | <u>-54,878</u>                     | <u>-</u>              | <u>-6,115</u>                           |
| <u>2,167,430</u>                   | <u>176,958</u>        | <u>-9,413</u>                           | <u>2,236,813</u>                   | <u>90,519</u>         | <u>-6,115</u>                           |
|                                    | <u>2,334,975</u>      |   |                                    | <u>2,321,217</u>      |   |
|                                    |                       | <b>Net Assets at 31 March</b>           |                                    |                       |   |

### Net Gains and Losses on Financial Instruments

| 31 March 2015                |  | 31 March 2016  |
|------------------------------|--|----------------|
| £000                         |  | £000           |
| <b>Financial Assets</b>      |  |                |
| 179,582                      | Fair Value through profit and loss               | -9,447         |
| 10,678                       | Loans and receivables                            | -15,508        |
| <b>Financial Liabilities</b> |  |                |
| -                            | Fair Value through profit and loss               | -              |
| -                            | Loans and receivables                            | -              |
| -                            | Financial liabilities measured at amortised cost | -              |
| <u>190,260</u>               | <b>Total</b>                                     | <u>-24,955</u> |

## **Valuation of Financial Instruments Carried at Fair Value**

The valuation of financial instruments has been classified into three levels according to quality and reliability of information used to determine fair values.

### **LEVEL 1**

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

### **LEVEL 2**

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

### **LEVEL 3**

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The values of the investment in private equity are based upon valuations provided by the general partners to the private equity in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually.

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2016 and 31 March 2015, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.



|   | Quoted<br>market price | Using<br>observable<br>inputs | With significant<br>unobservable<br>inputs |                  |
|---|------------------------|-------------------------------|--|------------------|
| Values at 31 March 2016                                     | Level 1                | Level 2                       | Level 3                                    | Total            |
|   | £000                   | £000                          | £000                                       | £000             |
| <b>Financial Assets</b>                                     |                        |                               |  |                  |
| Financial Assets at fair value through profit and loss      | 1,738,328              | 399,253                       | 154,110                                    | 2,291,691        |
| Loans and receivables                                       | 90,519                 | -                             | -  | 90,519           |
| <b>Total Financial Assets</b>                               | <b>1,828,847</b>       | <b>399,253</b>                | <b>154,110</b>                             | <b>2,382,210</b> |
| <b>Financial Liabilities</b>                                |                        |                               |  |                  |
| Financial Liabilities at fair value through profit and loss | -9,734                 | -45,144                       | -  | -54,878          |
| Financial Liabilities at amortised cost                     | -6,115                 | -                             | -  | -6,115           |
| <b>Total Financial Liabilities</b>                          | <b>-15,849</b>         | <b>-45,144</b>                | <b>-</b>                                   | <b>-60,993</b>   |
| <b>Net Financial Assets</b>                                 | <b>1,812,998</b>       | <b>354,109</b>                | <b>154,110</b>                             | <b>2,321,217</b> |

|   | Quoted<br>market price | Using<br>observable<br>inputs | With significant<br>unobservable<br>inputs |                  |
|---|------------------------|-------------------------------|--|------------------|
| Values at 31 March 2015                                     | Level 1                | Level 2                       | Level 3                                    | Total            |
|   | £000                   | £000                          | £000                                       | £000             |
| <b>Financial Assets</b>                                     |                        |                               |  |                  |
| Financial Assets at fair value through profit and loss      | 1,770,208              | 342,309                       | 105,153                                    | 2,217,670        |
| Loans and receivables                                       | 176,958                | -                             | -  | 176,958          |
| <b>Total Financial Assets</b>                               | <b>1,947,166</b>       | <b>342,309</b>                | <b>105,153</b>                             | <b>2,394,628</b> |
| <b>Financial Liabilities</b>                                |                        |                               |  |                  |
| Financial Liabilities at fair value through profit and loss | -37,354                | -12,886                       | -  | -50,240          |
| Financial Liabilities at amortised cost                     | -9,413                 | -                             | -  | -9,413           |
| <b>Total Financial Liabilities</b>                          | <b>-46,767</b>         | <b>-12,886</b>                | <b>-</b>                                   | <b>-59,653</b>   |
| <b>Net Financial Assets</b>                                 | <b>1,900,399</b>       | <b>329,423</b>                | <b>105,153</b>                             | <b>2,334,975</b> |

## 16. Nature and Extent of Risk Arising From Financial Instruments

### Risk and Risk Management

The Pension Fund's activities expose it to a variety of financial risks. The key risks are:

- i. **MARKET RISK** - the possibility that financial loss may arise for the Fund as a result of changes in, for example, interest rates movements;
- ii. **CREDIT RISK** - the possibility that other parties may fail to pay amounts due to the Fund;

**iii. LIQUIDITY RISK** - the possibility that the Fund might not have funds available to meet its commitments to make payments.

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and maximise the opportunity for gains across the whole fund portfolio. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The administering body manages these investment risks as part of its overall Pension Fund risk management programme.

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 14. By dividing the management of the assets between a number of managers risk is further controlled. Asset allocation benchmarks have been set and performance is monitored relative to the benchmarks. This is to ensure the Investment Manager does not deviate from the Pension Fund Committee's investment strategy.

The Fund has appointed a Global Custodian that performs a range of services including collection of dividends and interest from the Investment Managers, administering corporate actions that the Pension Fund may join, dealing with taxation issues and proxy voting when requested. It also ensures that the settlement of purchases and sales of the Fund assets are completed. The Custodian has stringent risk management processes and controls. Client accounts are strictly segregated to ensure that the Fund assets are separately identifiable. Conservative investment practices are ensured by the Custodian where they invest cash collateral.

The Fund also employs a specialised service as an independent check to ensure that all dividends receivable are compared against those collected by the Custodian and that they were received on the due date; any discrepancies are investigated. In line with its Treasury Management Policy, Durham County Council as administering authority, invests the short term cash balances on behalf of the Pension Fund. Interest is paid over to the Fund on a quarterly basis.

Durham County Council's overall risk management procedures focus on the unpredictability of financial markets and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on 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.

**i. MARKET RISK**

Market risk is the risk of loss from fluctuations in market prices, interest and foreign exchange rates. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis. These risks are managed in two ways:

- the exposure of the fund to market risk is monitored through a factor risk analysis to ensure that risk remains within tolerable levels;
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

**Other Price Risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses, from shares sold short, is unlimited.

The Fund's Investment Managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the Fund Investment Strategy.

**Other Price Risk – Sensitivity Analysis**

In consultation with the Fund's investment advisers, an analysis of historical volatility and implied market volatility has been completed. From this, it has been determined that the potential market movements in market price risk, as shown in the following table, are reasonably possible for the 2015/16 reporting period. The analysis assumed that all other variables remain the same.

If the market price of the Fund investments were to increase/ decrease in line with these potential market movements, the value of assets available to pay benefits would vary as illustrated in the following table (the prior year comparator is also provided):

| Manager  | Asset type              | Asset value<br>at 31 March<br>2016<br>£000 | Potential<br>market<br>movements<br>% | Value on<br>increase<br>£000 | Value on<br>decrease<br>£000 |
|--|-------------------------|--|---------------------------------------|------------------------------|------------------------------|
| Aberdeen   | Global equity           | 339,124                                    | 18.8%                                 | 402,879                      | 275,369                      |
| Alliance Bernstein                                     | Broad Bonds             | 341,874                                    | 8.0%                                  | 369,224                      | 314,524                      |
| BNYM   | Global equity           | 364,837                                    | 18.8%                                 | 433,426                      | 296,248                      |
| BlackRock  | DAA                     | 371,476                                    | 8.6%                                  | 403,423                      | 339,529                      |
| CBRE   | Unlisted property       | 154,110                                    | 14.1%                                 | 175,840                      | 132,380                      |
| CBRE   | Listed property         | 31,619                                     | 20.0%                                 | 37,943                       | 25,295                       |
| Mondrian   | Emerging market equity  | 147,296                                    | 29.9%                                 | 191,338                      | 103,254                      |
| RLAM   | UK Index Linked Gilts   | 468,295                                    | 8.8%                                  | 509,505                      | 427,085                      |
| Other  | UK Equity               | 28   | 17.1%                                 | 33                           | 23                           |
|  | Loans                   | 349  | 0.0%                                  | 349                          | 349                          |
|  | Cash                    | 79,589                                     | 0.0%                                  | 79,589                       | 79,589                       |
|  | Net derivative assets   | 12,207                                     | 0.0%                                  | 12,207                       | 12,207                       |
|  | Net investment balances | 5,947                                      | 0.0%                                  | 5,947                        | 5,947                        |
| <b>Total change in net investment assets available</b> |                         | <b>2,316,751</b>                           |                                       | <b>2,621,703</b>             | <b>2,011,799</b>             |

| Manager  | Asset type                 | Asset value<br>at 31 March<br>2015<br>£000 | Potential<br>market<br>movements<br>% | Value on<br>increase<br>£000 | Value on<br>decrease<br>£000 |
|--|----------------------------|--|---------------------------------------|------------------------------|------------------------------|
| Aberdeen   | Global equity              | 343,880                                    | 15%                                   | 395,462                      | 292,298                      |
| Alliance Bernstein                                     | Broad Bonds                | 330,169                                    | 6%                                    | 349,979                      | 310,359                      |
| Barings  | DAA                        | 371  | 8%                                    | 401                          | 341                          |
| BNYM   | Global equity              | 355,519                                    | 15%                                   | 408,847                      | 302,191                      |
| BlackRock  | DAA                        | 395,918                                    | 8%                                    | 427,591                      | 364,245                      |
| CBRE   | Unlisted property          | 105,153                                    | 12%                                   | 117,771                      | 92,535                       |
| CBRE   | Listed property            | 30,097                                     | 21%                                   | 36,417                       | 23,777                       |
| Mondrian   | Emerging market equity     | 152,799                                    | 23%                                   | 187,943                      | 117,655                      |
| RLAM   | UK Index Linked Gilts      | 477,474                                    | 10%                                   | 525,221                      | 429,727                      |
| Other  | UK Equity                  | 28   | 23%                                   | 34                           | 22                           |
|  | Loans                      | 375  | 0%                                    | 375                          | 375                          |
|  | Cash                       | 165,402                                    | 0%                                    | 165,402                      | 165,402                      |
|  | Net derivative liabilities | -775                                       | 0%                                    | -775                         | -775                         |
|  | Net investment balances    | -23,203                                    | 0%                                    | -23,203                      | -23,203                      |
| <b>Total change in net investment assets available</b> |                            | <b>2,333,207</b>                           |                                       | <b>2,591,465</b>             | <b>2,074,949</b>             |

### Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the administering authority (as part of its Treasury Management Service for investment of surplus cash), its managers, custodian and investment advisers in accordance with the Fund's risk management strategy. This includes monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. 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.

### Interest Rate Risk - Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect income to the fund and the value of the net assets available to pay benefits. The following table shows the fund's asset values having direct exposure to interest rate movements as at 31 March 2016 and the effect of a +/- 50 BPS change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

| Asset type   | Asset Values at<br>31 March 2016<br><br>£000 | Change in year in the net assets<br>available to pay benefits |                 |
|--|--|---|-----------------|
|  |  | +50 BPS<br>£000   | -50 BPS<br>£000 |
| Cash and cash equivalents                                  | 79,589                                       | 398   | -398            |
| Fixed interest securities                                  | 31,708                                       | 159   | -159            |
| <b>Total change in net investment assets<br/>available</b> | <b>111,297</b>                               | <b>557</b>  | <b>-557</b>     |

| Asset type   | Asset Values at<br>31 March 2015<br><br>£000 | Change in year in the net assets<br>available to pay benefits |                 |
|--|--|---|-----------------|
|  |  | +50 BPS<br>£000   | -50 BPS<br>£000 |
| Cash and cash equivalents                                  | 165,402                                      | 827   | -827            |
| Fixed interest securities                                  | 87,417                                       | 437   | -437            |
| <b>Total change in net investment assets<br/>available</b> | <b>252,819</b>                               | <b>1,264</b>  | <b>-1,264</b>   |

### Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than GBP (the functional currency of the Fund). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP. The Fund's currency rate risk is routinely monitored by the Fund and its investment advisers in accordance with the

fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

### Currency Risk - Sensitivity Analysis

Having consulted with the Fund's independent investment advisers, the likely fluctuation associated with foreign exchange rate movements is expected to be 10% for developed market currencies and 15% in emerging market currencies. This is based upon the adviser's analysis of long-term historical movements in the month end exchange rates of a broad basket of currencies against the pound. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table exemplifies, by Investment Manager, to what extent a 10% (or 15% for emerging markets) strengthening/ weakening of the pound, against the various currencies in which the fund holds investments, would increase/ decrease the net assets available to pay benefits (the prior year comparator is also provided):

| Manager  | Currency exposure by asset type | Level of unhedged exposure | Total Volatility | Asset value at 31 March 16 | Value on increase | Value on decrease |
|--|---------------------------------|----------------------------|------------------|----------------------------|-------------------|-------------------|
|  |                                 |                            |                  | £000                       | £000              | £000              |
| Aberdeen   | Global Equity                   | 100%                       | 15%              | 339,124                    | 389,993           | 288,255           |
| Alliance Bernstein                                     | Broad Bonds                     | 0%                         | 0%               | 341,874                    | 341,874           | 341,874           |
| BlackRock  | DAA                             | 100%                       | 10%              | 364,837                    | 401,321           | 328,353           |
| BNYM   | Global Equity                   | 100%                       | 15%              | 371,476                    | 427,197           | 315,755           |
| CBRE   | Global Property                 | 100%                       | 10%              | 185,729                    | 204,302           | 167,156           |
| Mondrian   | Emerging market equity          | 100%                       | 15%              | 147,296                    | 169,390           | 125,202           |
| RLAM   | UK Index Linked Gilts           | 0%                         | 0%               | 468,295                    | 468,295           | 468,295           |
| Other  | UK Equity                       | 0%                         | 0%               | 28                         | 28                | 28                |
|  | Loans                           | 0%                         | 0%               | 349                        | 349               | 349               |
|  | Cash                            | 0%                         | 0%               | 79,589                     | 79,589            | 79,589            |
|  | Net derivative assets           | 0%                         | 0%               | 12,207                     | 12,207            | 12,207            |
|  | Net investment balances         | 0%                         | 0%               | 5,947                      | 5,947             | 5,947             |
| <b>Total change in net investment assets available</b> |                                 |                            |                  | <b>2,316,751</b>           | <b>2,500,492</b>  | <b>2,133,010</b>  |

| Manager  | Currency exposure by asset type | Level of unhedged exposure | Total Volatility | Asset value at 31 March 15 | Value on increase | Value on decrease |
|--|---------------------------------|----------------------------|------------------|----------------------------|-------------------|-------------------|
|  |                                 |                            |                  | £000                       | £000              | £000              |
| Aberdeen   | Global Equity                   | 94%                        | 13%              | 343,880                    | 388,584           | 299,176           |
| Alliance Bernstein                                     | Broad Bonds                     | 0%                         | 0%               | 330,169                    | 330,169           | 330,169           |
| Barings  | DAA                             | 2%                         | 1%               | 371                        | 375               | 367               |
| BlackRock  | DAA                             | 5%                         | 1%               | 355,519                    | 359,074           | 351,964           |
| BNYM   | Global Equity                   | 94%                        | 13%              | 395,918                    | 447,387           | 344,449           |
| CBRE   | Global Property                 | 15%                        | 2%               | 135,250                    | 137,955           | 132,545           |
| Mondrian   | Emerging market equity          | 100%                       | 19%              | 152,799                    | 181,831           | 123,767           |
| RLAM   | UK Index Linked Gilts           | 0%                         | 0%               | 477,474                    | 477,474           | 477,474           |
| Other  | UK Equity                       | 0%                         | 0%               | 28                         | 28                | 28                |
|  | Loans                           | 0%                         | 0%               | 375                        | 375               | 375               |
|  | Cash                            | 0%                         | 0%               | 165,402                    | 165,402           | 165,402           |
|  | Net derivative assets           | 0%                         | 0%               | -775                       | -775              | -775              |
|  | Net investment balances         | 0%                         | 0%               | -23,203                    | -23,203           | -23,203           |
| <b>Total change in net investment assets available</b> |                                 |                            |                  | <b>2,333,207</b>           | <b>2,464,676</b>  | <b>2,201,738</b>  |

## ii. CREDIT RISK

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund's entire investment portfolio (except derivatives) is exposed to some form of credit risk. The Fund minimises credit risk by undertaking transactions with a large number of high quality counterparties, brokers and institutions.

Investment Managers adopt procedures to reduce credit risk related to its dealings with counterparties on behalf of its clients. Before transacting with any counterparty, the Investment Manager evaluates both credit worthiness and reputation by conducting a credit analysis of the party, their business and reputation. The credit risk of approved counterparties is then monitored on an ongoing basis, including periodic reviews of financial statements and interim financial reports as required.

The Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested cash held with the Custodian is a direct exposure to the balance sheet of the Custodian. Arrangements for investments held by the Custodian vary from market to market but the assets of the Fund are held in a segregated client account. As at 31 March 2016, this level of exposure to the Custodian is only 2.7% of the total value of the portfolio. Surplus cash is invested by Durham County Council only with financial institutions which meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors' Credit Ratings Services. The Council's Investment Strategy sets out the maximum amounts and time limits in respect of deposits placed with each financial

institution; deposits are not made unless they meet the minimum requirements of the investment criteria.

The Fund believes it has managed its exposure to credit risk. No credit limits were exceeded during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The cash holding under its treasury management arrangements was £17.217m as at 31 March 2016 (£54.269m at 31 March 2015). This was held with the following institutions:

|                                | Rating              | Balances            | Rating              | Balances            |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                | as at 31 March 2016 | as at 31 March 2016 | as at 31 March 2015 | as at 31 March 2015 |
|                                |                     | £000                |                     | £000                |
| <b>Bank Deposit Accounts</b>   |                     |                     |                     |                     |
| Handelsbanken                  | F1+                 | 62                  | F1+                 | 1,079               |
| Barclays                       | F1                  | 1,209               | F1                  | 7,991               |
| Santander UK Plc               | F1                  | 94                  | F1                  | 7,991               |
| <b>Fixed Term Deposits</b>     |                     |                     |                     |                     |
| Royal Bank of Scotland         |                     | -                   | F1                  | 4,566               |
| Barclays                       | F1                  | 1,612               | F1                  | -                   |
| Bank of Scotland               | F1                  | 4,836               | F1                  | 13,698              |
| Nationwide Building Society    | F1                  | 2,014               | F1                  | 5,708               |
| Goldman Sachs                  | F1                  | 2,820               | F1                  | 6,849               |
| Natwest Bank                   | F2                  | 1,612               |                     | -                   |
| UK Local Authorities           | N/A                 | 898                 |                     | -                   |
| <b>Income Bond</b>             |                     |                     |                     |                     |
| National Savings & Investments | N/A                 | 81                  | N/A                 | 228                 |
| Other                          |                     |                     |                     |                     |
| Money Market Funds             | N/A                 | 1,979               | N/A                 | 6,159               |
| <b>Total</b>                   |                     | <b>17,217</b>       |                     | <b>54,269</b>       |

### iii. LIQUIDITY RISK

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Steps are taken to ensure that the Fund has adequate cash resources to meet its commitments. Management prepares quarterly cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund Investment Strategy and rebalancing policy.

The vast majority of the Fund's investments are readily marketable and may be easily realised if required. Some investments may be less easy to realise in a timely manner but the total value of these types of investments is not considered to have any adverse consequences for the Fund.



Durham County Council invests the cash balances of the Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee. The Council manages its liquidity position to ensure that cash is available when needed, through the risk management procedures set out in the prudential indicators and treasury and investment strategy reports, and through a comprehensive cash flow management system.

Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, gives Durham County Council a limited power to borrow on behalf of the Pension Fund for up to 90 days. The Council has ready access to borrowings from the money markets to cover any day to day cash flow need. This facility is only used to meet timing differences on pension payments and as they are of a short-term nature, exposure to credit risk is considered negligible.

## 17. Analysis of Debtors

| 2014-15<br>£000 |   | 2015-16<br>£000 |
|-----------------|---|-----------------|
| 1,467           | Central government bodies                       | 1,292           |
| 8,173           | Other local authorities                         | 6,930           |
| 15,692          | Other entities and individuals                  | 18,040          |
| <u>25,332</u>   | <b>Total debtors</b>                            | <u>26,262</u>   |
|                 | <b>Included in the Net Assets Statement as:</b> |                 |
| 1,042           | Long Term Assets                                | 833             |
| 14,151          | Other Investment Assets                         | 15,681          |
| 10,139          | Current Assets                                  | 9,748           |
| <u>25,332</u>   |   | <u>26,262</u>   |

The long term assets relate to the portion of the transfer value in from the Ministry of Justice for Magistrates' Courts staff which are repayable more than 12 months after the year end.

## 18. Analysis of Creditors

| 2014-15<br>£000 |   | 2015-16<br>£000 |
|-----------------|---|-----------------|
| -799            | Central government bodies                       | -815            |
| -5,378          | Other local authorities                         | -1,388          |
| -40,590         | Other entities and individuals                  | -13,646         |
| <u>-46,767</u>  | <b>Total creditors</b>                          | <u>-15,849</u>  |
|                 | <b>Included in the Net Assets Statement as:</b> |                 |
| -37,354         | Investment Liabilities - Other balances         | -9,734          |
| -9,413          | Current Liabilities                             | -6,115          |
| <u>-46,767</u>  |   | <u>-15,849</u>  |

Included in the amount due to other local authorities in 2014/15 was a provision of £4.008m for the transfer value paid to South Tyneside Pension Fund during 2015/16. This

related to the group transfer of staff from the former Wear Valley District Council who are now employed by Gentoo.

All of the £15.849m is expected to be paid by the Pension Fund within 12 months after the year end.

## 19. Additional Voluntary Contributions (AVCs)

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. The Pension Fund offers two types of AVC arrangement:

- Purchase of additional pension, which is invested as an integral part of the Fund's assets;
- Money purchase scheme, managed separately by Equitable Life, Standard Life and Prudential. AVCs may be invested in a range of different funds.

The following table refers only to the money purchase AVCs:

|                | Value at<br>31 March 2015<br>£000 | * Purchases<br>£000 | Sales<br>£000 | Change in<br>Market Value<br>£000 | Value at<br>31 March 2016<br>£000 |
|----------------|-----------------------------------|---------------------|---------------|-----------------------------------|-----------------------------------|
| Equitable Life | 2,174                             | 49                  | 152           | 32                                | 2,103                             |
| Prudential     | 3,849                             | 1,131               | 406           | 35                                | 4,609                             |
| Standard Life  | 1,819                             | 389                 | 424           | -18                               | 1,766                             |
| <b>Total</b>   | <b>7,842</b>                      | <b>1,569</b>        | <b>982</b>    | <b>49</b>                         | <b>8,478</b>                      |

\* Purchases represent the amounts paid to AVC providers in 2015/16

The financial information relating to money purchase AVCs, as set out above, is not included in the Fund's Net Asset Statement or Fund Account in accordance with Regulation 5(2) c of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

## 20. Related Party Transactions

Related parties are bodies or individuals that have the potential to control or influence the Pension Fund or to be controlled or influenced by the Pension Fund. Influence in this context is expressed in terms of a party:

- being potentially inhibited from pursuing at all times its own separate interests by virtue of the influence over its financial and operating policies; or
- actually subordinating its separate interests in relation to a particular transaction.

Related parties of the Pension Fund fall into three categories:

- a) Employer related
- b) Member related
- c) Key management personnel

**a) EMPLOYER RELATED**

There is a close relationship between an employer and the Pension Fund set up for its employees and therefore each participating employer is considered a related party. The following table details the nature of related party relationships.

| Transaction                                     | Description of the Financial Effect   | Amount                                   |  |
|---|---|--|--|
|   |   | 2014/15                                  | 2015/16                                  |
| Contributions receivable                        | Amounts receivable from employers in respect of contributions to the Pension Fund   | £98.848m                                 | £112.035m                                |
| Debtors   | Amounts due in respect of employers and employee contributions  | £10.317m                                 | £9.396m                                  |
| Creditors                                       | Amounts due to the Administering Authority in respect of administration and investment management expenses  | £1.370m                                  | £1.388m                                  |
| Administration & Investment Management Expenses | The administration, and a small proportion of the investment management, of the Pension Fund is undertaken by officers of the County Council. The Council incurred the following costs, including staff time, which have been subsequently reimbursed by the Fund | £1.370m                                  | £1.388m                                  |
| Long term loans                                 | The Pension Fund made loans to Durham County Council prior to January 1974 which earn interest of between 5.75% and 9.875% pa of the outstanding balance, in addition to capital repayments   | Loans outstanding<br>£0.258m             | Loans outstanding<br>£0.239m             |
| Investment Income                               | Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance and interest earned were:   | Balance = £35.929m<br>Interest = £0.155m | Balance = £51.289m<br>Interest = £0.233m |

**b) MEMBER RELATED**

Member related parties include:

- Members and their close families or households;
- companies and businesses controlled by the Members and their close families which have a financial contractual relationship with any of the organisations that contract with the Pension Fund.

Durham County Council and Darlington Borough Council have a number of Members who are on the Pension Fund Committee. These Members are subjected to a declaration of interest circulation on an annual basis. Each Member of the Pension Fund Committee is

also required to declare their interests at the start of each meeting. There were no material related party transactions between any Members or their families and the Pension Fund.

There are three Members of the Pension Fund Committee who are in receipt of pension benefits from Durham County Council Pension Fund; a further two Members are active members of the Pension Fund.

**c) KEY MANAGEMENT PERSONNEL**

Related parties in this category include:

- key management i.e. senior officers and their close families;
- companies and businesses controlled by the key management of the Pension Fund or their close families.

Disclosure requirements for officer remuneration and members allowances can be found in the main accounts of Durham County Council.

There were no material related party transactions between any officers or their families and the Pension Fund.

## **21. Contingent Assets**

**a) PENSION CONTRIBUTIONS ON EQUAL PAY PAYMENTS**

Originally equal pay settlements were not deemed to be pensionable however, an element of choice has since been introduced. Individuals can choose to have their settlements considered to be pensionable. This provision has now been added to the agreements that individuals with pending equal pay settlements sign.

There is no certainty that an individual will pay pension contributions on their Equal Pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain. The level of contributions likely to be received by the Pension Fund, are unlikely to have a material effect on the Pension Fund Accounts.

**b) FOREIGN INCOME DIVIDENDS (FIDs)**

The Pension Fund is involved in claims for tax reclaims due to EC Legislation. The outcome of the Court cases will determine the reclaim of taxes, neither the amount of income nor the timing of the income is certain.

Up until 1 July 1997 UK Pension Funds were entitled, under UK tax law, to reclaim tax credits attaching to dividends received from UK resident companies. However, Pension Funds which received dividends designated by UK companies as FIDs, or dividends received from overseas companies, were not entitled to a refundable tax credit. Since UK

sourced dividends came with a 20 percent tax credit, the net investment income return from UK companies paying such dividends was significantly higher than UK companies paying FIDs or dividends from overseas companies, for which no credit was available. As a result there was a disincentive for Pension Funds to invest in such companies.

The UK tax law which gave rise to these consequences was arguably contrary to EU law, notably Article 56EC, in that it treated UK Pension Funds investing directly into overseas companies, or UK companies paying FIDs, less favourably than UK companies paying ordinary dividends.

The legal arguments to support the strongest element of the FID and Manninen type claims (for EU sourced dividends and FIDs) are considered to be very good. The points in issue are currently being considered at the High Court via a Group Litigation Order containing over 65 UK Pension Funds, including Durham County Council Pension Fund.

### **c) WITHHOLDING TAX (WHT) CLAIMS**

Pension funds, investment funds and other tax exempt bodies across Europe have in recent years been pursuing claims against a number of EU Member States for the recovery of withholding taxes suffered on EU sourced dividend income. These claims were made in the light of the Fokus Bank (Case E-1/04) ruling in December 2004 on the grounds that the WHT rules of those Member States are in breach of the free movement of capital principle of the EC Treaty. The legal arguments used to support Fokus claims are strong and rely on existing case law. The EU Commission announced that it is taking action against a number of member states which operate discriminatory rules regarding the taxation of outbound dividends.

A test case in the Netherlands on behalf of a number of UK pension funds was successful and in January 2009 notification from the Dutch Tax Authorities was received that the claims brought by the test claimant for the recovery of withholding taxes going back to 2003 had been accepted and would be repaid in the near future. Following the ruling in the Netherlands which essentially states that the Dutch tax authorities should not have levied a "withholding tax" (WHT) on dividend payments to tax exempt bodies (such as UK pension funds) located within the European Union but outside the Netherlands, a similar process for reclaiming WHT in other EU Member States is now on-going.

As a result of a precedent for the change in WHT has been set by the Netherlands, other Member States have now reduced the level of WHT of non-residents; recovery is therefore probable, but the timing and amount of income is uncertain.

## **22. Funding Arrangements**

In line with the LGPS (Administration) Regulations 2008, the Fund's independent qualified actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2013. The next valuation will take place as at 31 March 2016.

The key elements of the funding policy are to:

- ensure the long term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- ensure that employer contribution rates are as stable as possible;
- minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- use reasonable measures to reduce the risk to other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

At the 31 March 2013 actuarial valuation, the Fund was assessed as being 84% funded (80% at 31 March 2010). This corresponded to a deficit of £379.2m (£418.1m at 31 March 2010).

The aim is to achieve 100% solvency over a period of 18 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. The required level of contributions to be paid into the Fund by participating bodies (in aggregate) with effect from 1 April 2014 is 13.7% of pensionable pay plus additional monetary amounts of £24.3m in 2014/15 and increasing by 3.9% p.a. thereafter. (In 2013/14 the aggregate employer contribution rate was 13.1% of pensionable pay plus an additional sum of £29.9m).

The key assumptions used by the actuary to calculate the past service liabilities and the cost of future benefit accrual are set out in the following table:

|   | Valuation as at 31 March 2013  | Valuation as at 31 March 2010   |
|---|--|---|
| <b>Financial Assumptions</b>                                      |  |   |
| Discount rate for periods in service                              | 5.4% pa  | 6.8% pa   |
| Discount rate for periods after leaving service                   | 5.4% pa  | 6.8% pa   |
| Rate of revaluation of pension accounts                           | 2.4% pa  | n/a   |
| Rate of pension increases on:                                     |  |   |
| - non Guaranteed Minimum Pensions                                 | 2.4% pa  | 3.3% pa   |
| - post 1988 Guaranteed Minimum Pensions                           | 2.0% pa  | 2.7% pa   |
| Pensionable pay increase  | 3.9% pa  | 5.3% pa   |
| <b>Demographic Assumptions</b>                                    |  |   |
| Post-retirement mortality assumption (normal health) - base table | SAPS normal tables with scaling factors of 105% for men and women  | SAPS normal tables with scaling factors of 105% for men and women   |
| Post-retirement mortality assumption - future improvements        | CMI 2012 core projections with long annual improvement rate of 1.5%  | CMI 2012 core projections with long annual improvement rate of 1.25%  |
| Retirement cash sum   | Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted | Each member assumed to exchange 80% of their future service pension rights and 60% of their past service pension rights for additional lump sum of the maximum amount permitted |

### 23. Actuarial Present Value of Promised Retirement Benefits

The CIPFA Code of Practice indicates that Pension Fund accounts should disclose the actuarial present value of promised retirement benefits as set out in the accounting standard IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on funding assumptions (set out in Note 22 to these accounts).

The Pension Fund Accounts do not take account of the liabilities to pay pensions and other benefits in the future. Instead, as permitted under IAS 26, the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts. This requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at triennial valuations only, the most recent being as at 31 March 2013.

The actuarial present value of promised retirement benefits has been calculated based on projected salaries and is included in the table below. The corresponding fair value of Fund Assets is also shown to indicate the level of deficit within the Fund when the liabilities are valued using IAS 19 assumptions. The figures for 2010 are provided for comparison purposes.

|   | Value as at<br>31 March 2013<br>£m | Value as at<br>31 March 2010<br>£m |
|---|------------------------------------|------------------------------------|
| Fair value of net assets                                      | 2,085                              | 1,682                              |
| Actuarial present value of the promised retirement benefits   | 2,905                              | 2,833                              |
| Surplus / -deficit in the Fund as measured for IAS26 purposes | -820                               | -1,151                             |

As the liabilities above are calculated on an IAS 19 basis, they differ from those calculated for the triennial valuation because different assumptions are applied. The main IAS19 assumptions used are as follows:

|   | 31 March 2013<br>(% p.a.) | 31 March 2010<br>(% p.a.) |
|---|---------------------------|---------------------------|
| Discount rate                             | 4.4                       | 5.5                       |
| RPI Inflation                             | 3.4                       | 3.9                       |
| CPI Inflation                             | 2.4                       | 3.0                       |
| Rate of increase to pensions in payment * | 2.4                       | 3.9                       |
| Rate of increase to deferred pensions *   | 2.4                       | 3.9                       |
| Rate of general increase in salaries **   | 3.9                       | 5.4                       |

\* In excess of Guaranteed Minimum Pension increases in payment where appropriate

\*\* In addition, we have allowed for the same age related promotional salary scales as used in the actuarial valuation of the Fund at the appropriate date

## 24. Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013 require administering authorities to prepare a Funding Strategy Statement. The Funding Strategy Statement has been adopted by the Pension Fund Committee and is published in the Durham County Council Pension Fund Annual Report, a copy of which is available on the County Council's website at [durham.gov.uk](http://durham.gov.uk). The Funding Strategy Statement has been reviewed and updated by the Pension Fund Committee during 2015/16.

The purpose of the Funding Strategy Statement is to:

- establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
- support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;
- take a prudent longer term view of funding the Fund's liabilities.

## 25. Statement of Investment Principles

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009, the Pension Fund has prepared and reviewed a written statement of its investment policy. This statement has been adopted by the Pension Fund Committee and is published in the Durham County Council Pension Fund Annual Report, a copy of which is available on the Council's website at [durham.gov.uk](http://durham.gov.uk). The Statement of Investment Principles sets out the principles for investing Fund monies. It was reviewed by the Pension Fund Committee during 2015/16.



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## Annual Governance Statement 2015/16

### SCOPE OF RESPONSIBILITY

1. Durham County Council (the 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.
2. The Accounts and Audit (England) Regulations 2015 require the Council to prepare an Annual Governance Statement, which must accompany the Statement of Accounts. 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.
3. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
4. In April 2016, the Council approved, adopted and published on its website, a revised Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) Framework – “Delivering Good Governance in Local Government”.
5. This statement explains how the Council has complied with the code and also meets the requirements of Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement.

### THE PURPOSE OF THE GOVERNANCE FRAMEWORK

6. The governance framework comprises of the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services for the people of County Durham.
7. 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 of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

8. The governance framework has been in place at the Council for the year ended 31 March 2016 and up to the date of approval of the Statement of Accounts.

## **THE GOVERNANCE FRAMEWORK**

9. The key elements of the systems and processes that comprise the Council's governance arrangements are detailed in the Council's Local Code of Corporate Governance, which is documented in the Council's [Constitution](#). This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the six core principles of the CIPFA/ SOLACE Framework.
10. The following sections demonstrate assurance that the Council has complied with each of these principles in practice, and also highlights where we have further improved our corporate governance arrangements during 2015/16.

### **The Six Principles of Good Governance**

**Principle 1: Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.**

11. The [Sustainable Community Strategy \(SCS\) 2014 – 2030](#) which has been produced by the Council in conjunction with its partners on the County Durham Partnership, demonstrates its shared long-term vision for the future of County Durham. This vision for County Durham, namely 'Altogether Better Durham' outlines two areas of focus – **Altogether Better Place** and **Altogether Better for People** and five priority themes, which represent the major issues identified by residents:
  - Altogether wealthier – focusing on creating a vibrant economy and putting regeneration and economic development at the heart of all our plans. This theme is supported by the [Regeneration Statement 2012 – 2022](#) and the [County Durham Plan](#);
  - Altogether better for children and young people – ensuring children and young people are kept safe from harm and that they can 'believe, achieve and

succeed'. This theme is supported by the [Children, Young People and Families Plan 2015 - 2018](#);

- Altogether healthier – improving health and wellbeing, supported by the [Joint Health and Wellbeing Strategy 2016 - 2019](#);
- Altogether greener – ensuring an attractive and 'liveable' local environment and contributing to tackling global environmental challenges. This theme is supported by the [County Durham Plan](#);
- Altogether safer – creating a safer and cohesive county, supported by the [Safe Durham Partnership Plan 2015 - 2018](#) and the [Police and Crime Plan 2015 - 2017](#).

12. The SCS was renewed and launched in November 2014 and identified six new areas of cross-thematic focus that will benefit from additional joined up working: Job Creation, Volunteering, Inequalities, Alcohol, Mental Wellbeing and Think Family. The 2014 version of the strategy reflects changes in local priorities and the need to deliver services with fewer resources. The strategy will undergo a substantial review during 2016/17.
13. The County Durham Partnership, which is the strategic partnership for the County, is made up of key public, private and voluntary sector partners, and is underpinned by thematic partnerships set around the five priority themes. Operationally, it is supported by the Delivery and Improvement Group, whose role is to monitor performance towards implementing the SCS, and consider strategically how plans align and where efficiencies and value can be maximised through integration, shared services and joint commissioning.
14. The [Council Plan 2016 - 2019](#) was approved in April 2016 and contains the Council's corporate priorities and the key actions to take in support of delivering the longer term goals in the SCS and the Council's own improvement agenda. The [Council Plan](#) is supported by a series of Service Plans at a Service Grouping level which detail the planned actions to deliver the Council's vision.
15. The [Medium Term Financial Plan 2016 - 2019 \(MTFP\)](#) was approved by the Council in February 2016. This provides a financial framework associated with the [Council Plan](#) that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes. It also enables the continued provision of value for money (VFM). The key risk facing the Council continues to be the challenge of managing unprecedented budget reductions in the current period of economic austerity. To meet this challenge, a comprehensive schedule of savings targets has been programmed to achieve the necessary savings to enable us to deliver a balanced budget and [MTFP](#). Assurance over the delivery of this programme is gained by detailed and frequent monitoring undertaken by Corporate Management Team

(CMT) and, during the five years up to the end of March 2016, a sum of £153m of savings has been delivered. These arrangements will equip the Council well for dealing with further austerity measures announced as part of the latest central government spending review. The Council has maintained prudent levels of reserves enabling us to meet unanticipated expenditure as necessary whilst still achieving planned savings targets and meeting service level expectations.

16. Despite sustained, large-scale Government spending cuts and rising demand for services, the MTFP seeks to deliver some very positive outcomes for the people of County Durham. Significant capital investment in town centres and industrial estates will support regeneration, the Council's highest priority, in order to protect existing jobs and create new ones. The Council Tax Reduction Scheme provides continued support for low-income, working age households; and ongoing work with partners aims to maximise health and social care funds for the benefit of vulnerable people.
17. In April 2014, the Council submitted the County Durham Plan to the Government and this was followed by an examination in public. After the Planning Inspector's Report rejected the plan, the council challenged the report and it was subsequently quashed by the High Court. Following discussions with the Department for Communities and Local Government and the Planning Inspectorate, legal advice was sought and the Council decided to undertake a three stage process in preparation of a new local plan, which will also ensure meaningful engagement with the community and other stakeholders. In the meantime, members have endorsed a revised Policy Position Statement to clarify how development proposals will be handled to ensure that appropriate sustainable development is not delayed.
18. To manage and measure service improvement, the Council has a locally led performance management framework that links to the SCS and the [Council Plan](#) and ensures that attention is focused on Council priorities. Key target indicators are used in areas where improvements can be measured regularly and can be actively influenced by the Council and its partners. Where possible, performance is compared with that of other Councils using a recognised, online tool. A new indicator set and targets were developed for 2015/16 to ensure that our efforts continue to be focused on the right areas, and these were agreed by Cabinet in June 2015.
19. There are numerous examples of internally-driven improvements during 2015/16 that evidence the effectiveness of the Council's governance arrangements:-
  - Successful transfer of ownership of the Council's housing stock to the new County Durham Housing Group Ltd in April 2015, representing a significant opportunity to increase investment in homes, local neighbourhoods and housing services to further improve the lives of tenants;
  - Established localised, multi-disciplinary 'Families First' teams to help children, young people and their families achieve and maintain good progress;

- Increased self-serve facilities, allowing people to access more services through our website on a 24/7 basis;
- A new mobile-friendly website, Locate, provides an improved directory of vital care and support services, replacing the Durham Information Guide;
- Effectively managed the reductions in library opening hours, rather than closing them, in response to consultation with service users;
- Refurbishment of three waste transfer stations giving improved recycling facilities and more scope to recycle.

20. Assurance can also be taken from the following external independent sources that, through good governance, the Council continues to maintain and improve the quality of services:-

- An inspection of children's services and review of the Local Safeguarding Children's Board by Ofsted under their single inspection framework. A Quality Improvement Board provides strategic oversight of the Ofsted implementation plan and quality assurance developments in Children's Services.
- An assessment of leisure centres against the QUEST quality standard.
- The Strategic Waste Team's management of seven former landfill sites and 11 closed landfill sites is regulated by the Environment Agency and Northumbrian Water;
- A programme of independent audits evaluates, for accreditation or certification, activities such as asset management, safety management and collaborative business relationships.

21. The Council continues to seek value for money (VFM) through its high level objective 'effective use of resources' under the Altogether Better Council theme. In this way, pursuit of VFM is built into all of the Council's plans and activities, and numerous reviews have been undertaken across the Council to provide assurance that VFM services are being provided. Senior Management Teams have used benchmarking data from statutory returns, such as budget statements collected by the Department for Education and the Personal Social Services Expenditure Return, to inform programmes of VFM reviews and savings options in various service areas. Where necessary, this has been supplemented by data from commercial benchmarking clubs, such as Chartered Institute of Public Finance and Accountancy (CIPFA), to facilitate meaningful comparisons with other organisations. The results of these benchmarking exercises demonstrate that the Council compares favourably against other Councils in the majority of cases. Nevertheless, in the context of continuous improvement, the Council assesses any weaknesses identified from these exercises where improvements in performance can be achieved. Independent assurance of our VFM was also gained from our External Auditor, who issued an unqualified VFM conclusion for our 2015/16 Accounts.

22. The Council's Cabinet is responsible for monitoring performance and ensures that effective arrangements are put in place to deal with any failures in service delivery. Assurance is gained through quarterly performance reporting to Cabinet and through performance clinics between the Chief Executive and individual Corporate Directors and the Assistant Chief Executive during the year. Members have robustly scrutinised the performance of the Council, demonstrated by a number of key scrutiny reviews of Council services during 2015/16, which are outlined in the [Overview and Scrutiny Annual Report](#).
23. The Annual Statement of Accounts was approved by the Audit Committee in September 2015, taking account of the views of the External Auditor, in line with the Accounts and Audit Regulations 2011. Further independent assurance of the Council's financial management was provided by the External Auditor in both their Audit Completion Report and Certification of Claims and Returns Annual Report. Governance reviews are also led by Services, such as the quality assurance team in Children and Adults Services, who carried out a number of audits during the year.
24. To enable better use of resources, the Council has made the following changes:
- A new banking service was implemented in December 2015, following the previous supplier's withdrawal from the local authority market in 2014;
  - Chapter Homes established as an arms-length private company to develop council-owned land for housing to be sold and rented at market values. This is in line with the overall aim to capitalise on our assets in order to improve our economic performance and the prospects of our people;
  - Ensuring all contracts contain clauses requiring providers to have appropriate procedures in place to prevent unlawful discrimination in employment.
25. A programme management approach for key corporate projects is embedded, supported by project management training across the Council. Examples which demonstrate that rigorous programme management has enabled effective delivery of major projects include the transfer of Community Buildings, the Housing Stock Transfer, the new banking contract and a two year, £3.4 million programme of repairs to Seaham North Pier. Assurance is gained by regular monitoring of the delivery of these projects by Corporate Management Team.
26. The Council's Corporate Asset Management Plan (CAMP) and Property Strategy were approved by Cabinet in July 2013. The CAMP sets out the Council's approach to ensuring that it makes best use of its assets in terms of service benefit, financial benefit and value for money. The Property Strategy sets out the main principles to ensure that opportunities to share the use of property are identified, and to make sure that assets are fit for purpose, cost effective and used to support regeneration and economic development. The Council is now a forerunner in asset transfer, having successfully assigned a number of leisure centres, a golf course and

children's centres to community organisations. The recently completed community buildings programme was one of six national winners in the Carnegie Trust's Enabling State Awards and was described as ground-breaking and innovative. A key element of the programme is to work with local communities and our partners to consider alternative ways of continuing to provide front line services.

27. Service Asset Management Plans are also in place and these include any heritage assets of the holding service

**Principle 2: Members and Officers working together to achieve a common purpose with clearly defined functions and roles**

28. The key governance documents supporting this principle are contained in the [Constitution](#). These arrangements are further strengthened by a number of formal member and officer working groups.
29. The [Constitution](#) sets out how the Executive is made up and how appointments to this committee are made. The roles and responsibilities allocated by the Leader under the terms of the [Constitution](#), to individual members and the committee as a whole, are set out in detail in the [Constitution](#) as well as the Scheme of Delegation for Senior Officers. The [Constitution](#) allows joint arrangements to be established for specific purposes such as the provision and maintenance of crematoria, and sets out details of existing joint arrangements, including purpose, parties and effective dates.
30. The Constitution Working Group, which consists of the lead members of each political party, and is chaired by the Leader of the Council, proposed amendments to the [Constitution](#) during the year which were approved by the Council. Changes following the annual review of the [Constitution](#) were approved by the Council in May 2016.
31. The arrangements and rules of procedure for the Overview and Scrutiny function, including the membership, functions and scope of the Overview and Scrutiny Board and each Committee is set out in detail in the [Constitution](#). Terms of Reference for the Board and Committees are set within the context of the [Council Plan](#) and the [Sustainable Community Strategy](#).
32. Under the terms of the [Constitution](#), the Council elected a Leader and made appointments to a number of committees with various regulatory and scrutiny responsibilities. The Leader has nominated nine other councillors, including a Deputy Leader, with specific responsibilities to form the Cabinet.

33. The Health and Wellbeing Board, a Committee of the Council, was established as a consequence of the Health and Social Care Act 2012. Public Health responsibilities also transferred to the Council from the NHS with effect from April 2013. Its functions include:
- Developing and agreeing the Joint Strategic Needs Assessment and Joint Health and Wellbeing Strategy;
  - Promoting integrated working between commissioners of health services, public health and social care services, for the purpose of advancing the health and wellbeing of people in its area; and
  - Developing a Pharmaceutical Needs Assessment.
34. An example of members and officers working together is the Member Officer Working Group (MOWG) assessing capital bids in the development of the MTFP. Bid submissions were considered taking key factors account, such as the Service Grouping's assessment of priority, availability of capital financing and whether schemes could be self-financing. MOWG also recognised the need for caution in committing to high levels of prudential borrowing at this stage for future years.
35. A new Chief Executive was appointed following the retirement of the previous post-holder. The process was overseen by the Chief Officer Appointments Committee, which is made up of 11 Members of the Council including the Leader and Deputy Leader who are Chair and Vice-Chair respectively. The decision was approved in October 2015 by full council, in line with the Council's Constitution.
36. The Council has appointed the Corporate Director Resources as Chief Financial Officer and Section 151 Officer to fulfil the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Chief Financial Officer, who is a member of the CMT and reports directly to the Chief Executive, has been involved in all CMT discussions, and has reviewed all reports to Cabinet which have financial implications. The Chief Financial Officer has also provided an opinion under section 25 of the Local Government Act 2003 on the reserves for the Council, which Members considered when setting the budget.
37. The Children Act 2004 requires every top tier local authority to appoint a Director of Children's Services with professional responsibility for the leadership, strategy and effectiveness of local authority children's services. The Council completed a Local Test of Assurance (LTA) in accordance with statutory guidance, and this was reported to Audit Committee in September 2015. The purpose of the LTA is to ensure that the focus on outcomes for children and young people is not weakened or diluted as a result of combining this statutory role with other functions.



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38. The new Chief Executive progressed plans to implement, during 2016, a revised chief officer structure to reflect the challenges faced by the Council whilst building on existing organisational strengths.
  39. Members and Officers work together on the work programme of the Cabinet which is managed through a system of Cabinet pre-agenda meetings. To support this, Corporate Directors have held regular briefing sessions with Cabinet Portfolio Members and their support Members.
  40. Members' remuneration is overseen by an independent panel, and their report was approved by Council in October 2015.

**Principle 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**

41. The key governance documents supporting this principle are the [Constitution](#), the [Council Plan](#) and the Register of Gifts and Hospitality.
42. The Standards Committee has the key governance role of promoting and monitoring high standards of conduct by elected Members, independent Members and co-opted Members. The Localism Act 2011 introduced a new duty to promote and maintain high standards of conduct and an ethical framework was adopted accordingly.
43. In terms of disclosure of gifts, hospitality and interests, assurance is gained over Member declarations and registrations by the Monitoring Officer maintaining and monitoring the Register of Gifts, Interests and Hospitality for Members, which is available online. Staff declarations are maintained and monitored by their Head of Service. An Internal Audit report recommending improved arrangements for maintaining registers was approved by Corporate Management Team in March 2015.
44. A climate of openness has been encouraged by the Council Leader who holds regular Cabinet meetings at various locations throughout County Durham. The key elements of the Council's approach to communicating and embedding the expected standards of behaviour for Members and staff are also detailed in the Council [Constitution](#). The Council's Codes of Conduct included in the [Constitution](#) also apply to its partnership working, and the revised Code of Conduct for Employees was approved by Corporate Management Team in September 2014. The [Constitution](#) also sets out a protocol for the Chairman and Vice-Chairman of the Council that includes an expectation of political neutrality and acting as the conscience of the Council.

45. The values of the Council are further promoted in the [Equality Policy](#), which was approved in January 2014 and includes 'protected characteristics' covered by the Equality Act. Supporting this scheme is an impact assessment process, which ensures that the impact on equality is considered in the Council's decision making. For example, the proposals in the 2016/17 MTFP strategy have been shaped by residents' and stakeholders' views with high level analysis of the equalities impact. A schedule of impact assessments is monitored through the Equality, Diversity and Cohesion Working Group. The implementation of the Access Strategy is monitored by the Equality, Diversity and Cohesion Working Group and a programme is in place for making access improvements to identified priority buildings.

46. During 2014/15, a new CCTV Policy and Code of Practice were implemented to improve the way the Council uses its powers under the Regulation of Investigatory Powers Act 2000 (RIPA).

**Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**

47. The key governance documents supporting this principle are the [Constitution](#); the [Corporate Complaints Policy and Procedure](#); the Risk Management Strategy and Policy; the [Counter Fraud and Corruption Strategy](#); and the [Confidential Reporting Code \(Whistleblowing policy\)](#).

48. The Council's [Constitution](#) sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are effective, transparent and accountable to local people. Amendments made to the Constitution during the year include updated officer scheme of delegations, the inclusion of a civic handbook and an update to the Members' Allowance Scheme.

49. All major decisions as identified in the officer delegations scheme are documented, with the reports and decisions made for those that are in the public domain being available on the website. All Cabinet reports must state that legal advice on proposals has been sought, as well as the source of the advice, and Chief Officers and Heads of Service were briefed on this by way of a refresher in February 2014 by the Head of Legal and Democratic Services.

50. The following improvements to governance arrangements in this area were implemented during the year:-

- The complaints process was modified to resolve issues more quickly and informally with service groupings taking the lead in resolving matters, allowing the corporate complaints unit to focus on investigating cases where people are not satisfied with the handling of their complaint;

- An internal audit of the Officer Scheme of Delegations concluded that there is a sound system of control with only minor risk to achieving system objectives; and
  - As a positive response to the Local Government Transparency Code, a transparency and accountability web page was set up.
51. A notice of key decisions covering a rolling period of four months is published on the Council's website. Decisions made by the Executive are published on the Council's website within two days of the respective meeting.
52. The key mechanism provided for employees, and contractors and suppliers providing services for the Council, to raise concerns about potential breaches of conduct in decision-making is the [Confidential Reporting Code \(Whistleblowing policy\)](#), which is part of the Council's [Constitution](#), and is monitored by the Audit Committee. The policy is referenced in the Scheme of Financing of Schools, and the School Financial Value Standard requires schools to have appropriate whistleblowing procedures. A revised [Confidential Reporting Code](#) was approved by Audit Committee in May 2014. An updated [Counter Fraud & Corruption Strategy and Fraud Response Plan](#) were approved by Audit Committee in February 2016. In June 2015, the Council established the Corporate Fraud Team to further strengthen its robust counter fraud arrangements, demonstrated by examples such as the development of proactive processes to identify and tackle suspicious insurance claims have been implemented during the year.
53. Overview and Scrutiny, which consists of an Overview and Scrutiny Management Board and six committees, has the key role to make decision-making processes transparent, accountable and inclusive and to improve services for people by being responsive to their needs. Where appropriate, Members have scrutinised the decisions of the Council, demonstrated by a number of key reviews which are outlined in the [Overview and Scrutiny Annual Report](#). They also contributed to a number of consultations and policy development areas, such as:
- Joint Health and Wellbeing Strategy;
  - Joint Strategic Needs Assessment;
  - Housing Strategy; and
  - Flood Risk Management Authorities flood mitigation plans for County Durham.
54. A number of key in-depth evidence based reviews have also been carried out by Overview and Scrutiny Committees including:
- Attendance Management;
  - CRM system development and implementation; and
  - Alcohol and the demand upon Emergency services.

55. The Council has been shortlisted in the Excellence in Governance and Scrutiny category of the 2016 Municipal Journal Achievement Awards for its approach to scrutiny, community engagement and consultation on governance and council planning.
56. As part of the annual review of the [Constitution](#), the Terms of Reference of the Overview and Scrutiny Management Board and Committees were updated to reflect the refresh of the co-optee appointments. This demonstrates that the work of Overview and Scrutiny contributes to the strategic priorities of the Council and its partners, and reflects the legislative requirements placed on the Council in respect of scrutiny arrangements.
57. With regard to the Overview and Scrutiny Committees, key points to note include:
- The Adults Wellbeing and Health Overview and Scrutiny Committee has been conferred with the Council's powers of review and scrutiny in respect of NHS Service changes in accordance with the Health and Social Care Act 2012;
  - Cross party representation on all Overview and Scrutiny Committees serves to promote an independent, non-partisan approach in their activities;
  - A Joint Health Scrutiny Committee with Hartlepool and Stockton Borough Councils formally engages and responds to proposals to reconfigure emergency medical and critical care services at North Tees and Hartlepool NHS Foundation Trust.
58. The Police and Crime Panel, which includes councillors from Durham County Council and from Darlington Borough Council, scrutinises the annual report, decisions and actions of the Police and Crime Commissioner (PCC). In March 2015, the Panel approved the refreshed Police and Crime Plan 2015 – 2017. An update on activity from the Panel is presented to each meeting of the Council's Safer and Stronger Communities Overview and Scrutiny Committee.
59. The Council's Monitoring Officer oversees the arrangements for conflicts of interest, gifts and hospitality. Members are required to review their declarations of gifts and hospitality annually. Officers and members are required to declare annually any conflicts of interest.
60. The Council's decision-making processes are also supported by:
- A risk management strategy and policy;
  - An Audit Committee with responsibility for monitoring and reviewing the risk, control and governance processes and associated assurance processes; and
  - The Council ensuring that it complies with legal requirements in its decision making by ensuring that all reports requiring a decision include the legal

implications, report authors confirming that they have obtained legal advice on proposals contained in reports, and the source of that legal advice.

61. An Audit Charter, which was approved in line with Public Sector Internal Audit Standards (PIAS), is in place. The Council's self-assessment against both the principles of the CIPFA Statement on the Role of Head of Internal Audit and the PIAS, which were presented to Audit Committee in June 2014, illustrates a high degree of compliance.
62. A Corporate Complaints policy is in place for non-statutory complaints, and details of complaints, and of investigations by the Commissioner for Local Administration, have been reported to Corporate Issues Overview and Scrutiny Committee.
63. A Freedom of Information (FOI) Policy and Publication Scheme are in place, and details of how to make a FOI request for information can be found on the Council's website.
64. To strengthen the Council's arrangements for maintaining good-quality information, a number of further improvements to governance in this area have been implemented in 2015/16. For example:
  - The Assistant Chief Executive was designated Senior Information Risk Officer and holds regular meetings with the Head of Planning and Performance, Head of ICT Services and the Council's designated Caldicott Guardian;
  - An online Data Protection Act training module was developed, which the majority of officers had completed by April 2015;
  - Data protection arrangements regarding data sharing were improved through standardised subject access requests, improved use of privacy impact assessments and a rolling programme of audits. A privacy impact assessment process was agreed and successfully piloted in September 2015.

**Principle 5: Developing the capacity and capability of Members and Officers to be effective**

65. The key governance documents supporting this principle are the Constitution; the Member Learning and Development Strategy; Organisational Development Strategy; Health, Safety and Wellbeing Strategy; and the Recruitment and Selection Policy.
66. The Council is committed to continually reviewing the development needs of Members and Officers.

67. Our approach to Member development is outlined in the Member Learning and Development Strategy, and the Member Learning and Development Policy, both of which were revised in October 2014. Induction training was provided for new Members elected during 2015/16 and individual training and development plans exist for all Members.
68. The Council continues to be a member of the North East Public Service Academy, which promotes excellence in learning across the public sector. Improvements to further develop the capacity and capability of officers during the year include:
- Numerous developments aimed at helping employees to meet the challenges of sustained reductions in finance and the consequent widespread changes in policy and service delivery;
  - The “The Durham Manager” programme continues to be evaluated, developed and promoted to support managers in meeting the changing needs of the organisation. Recent training courses include project; management, ‘succeeding through change’ and ‘difficult conversations’;
  - Resources Management Team agreed a three-year e-learning strategy in December 2015 following evaluation of the current process. This enables more training to be delivered on-line, ranging from corporate induction to recognising and managing stress in the workplace;
  - The processes for undertaking appraisals after a restructure were reinforced, including the rollout of the Business Intelligence module;
  - Training and development is promoted regularly in the Buzz magazine, through employee updates and via the intranet.
69. A revised corporate Health and Safety policy was launched in May 2014, and a revised Health and Safety and Wellbeing strategy was issued in June 2014. Independent assurance over the effectiveness of the Council’s Occupational Health Service was demonstrated when it was awarded Safe, Effective, Quality Occupational Health Service (SEQOHS) accreditation, which is the formal recognition that it has demonstrated the competence to deliver against the measures in the SEQOHS Standards developed by the Faculty of Occupational Medicine. The Council also continues to support employees through the change process with, for example, Jobcentre Plus information sessions and confidential counselling services through the Employee Assistance Programme.
70. The Council continued to drive improvements in employee attendance with support for both employees and management through targeted health and wellbeing initiatives, training and changes to processes. The Corporate Issues Overview and Scrutiny Panel undertook a review of attendance management, which was reported to Cabinet in December 2015. The new Attendance Management Policy focuses on rehabilitation to support attendance at work and the main changes include early intervention with assistance from Occupational Health and a revised procedure for managing short-term absences.

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71. The Council has taken steps, in consultation with various organisations, including the Royal Society for the Prevention of Accidents, to improve arrangements around managing water safety. A new Open Water Safety Policy was implemented following consultation with the Council's Water Safety Group and the Health, Safety and Wellbeing Strategic Group.

**Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability**

72. The key governance documents supporting this principle are the [Constitution](#); the [Consultation and Engagement Strategy](#); and the County Durham Partnership Community Engagement and Empowerment Framework.
73. As the strategic partnership for the County, the County Durham Partnership (CDP) is the lead umbrella partnership for most other partnerships in County Durham, and the Leader of the Council is the chair of the CDP. The Council's relationships with partners are managed through the Partnership Governance Framework. There are several examples of effective partnership working by the Council, including County Durham Economic Partnership (CDEP). The EU Investment Plan was created through the CDEP and used to inform the strategic approach developed through the Strategic Economic Plan and North East European Structural and Investment Fund (ESIF) Strategy for the effective use of funds to address Durham priorities. Clarity on relationships between the Council and these partners is provided through the County Durham Economic Partnership governance prospectus.
74. There were two significant developments around strategic partnership working in 2015/16. Firstly, the Durham Humanitarian Support Partnership was established to ensure that Durham's support for refugees placed in the county is joined up and will promote cross-service and agency working, as well as engagement with communities. The partnership is led by the Council and will also look to work with churches, the voluntary sector and other partners. Secondly, a newly-established Chief Officer Group provides support and oversight to chief officers across all statutory agencies of the safeguarding arrangements for children and adults services. The Group has an independent Chair and includes officers from the Council, NHS and the Police.
75. The Council's approach to engaging stakeholders is outlined in the [Consultation and Engagement Strategy](#). This is complemented by the County Durham Partnership Community Engagement and Empowerment framework, which has shaped and supported a common vision and approach for community engagement by partners in County Durham. The County Durham Compact provides a framework for partnership and engagement with the voluntary and community sector, and most partners within the County Durham Partnership are signatories. E-learning on the Compact has been delivered to partners and [VCS](#) organisations. Attendance by the

public at Council meetings and the protocols for asking questions are contained in the [Constitution](#).

76. Three examples of active consultation and engagement with the public follow. Firstly, the consultation process for refreshing the Joint Health and Wellbeing Strategy involved a range of stakeholders and included a 'Big Tent' engagement event, which was attended by over 260 people. Secondly, the Council continued to work with community groups to explore opportunities for the transfer of council assets so that they can be sustainable into the future through the 'Durham Ask' initiative. Thirdly, the Council took account of a poll of County Durham voters, to inform its approach to the proposed Devolution Agreement for the North East Combined Authority. Advertisements informing residents of the poll were placed in the local press and ran on local radio, generating a significant amount of interest with a turnout of 21.7%. The agreement, if signed, would devolve significant powers, funding and responsibilities around transport, investment, jobs, skills, housing and business support.
77. The Council has a strong commitment to working with partners to meet the needs of its communities. There are 14 [Area Action Partnerships \(AAPs\)](#) in place across the County, who are each governed by a board comprising members of the public, partner organisations and elected Councillors. These are multi-agency partnerships that are fully engaged with the community in identifying and addressing local priorities, and utilise locality budgets to drive improvements to the local area.
78. Through its partnership governance framework, the Council has gained assurance that:
- Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority;
  - there is clarity about the legal status of the partnership; and
  - representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.
79. Customer service arrangements have improved significantly. The Council's Customer First Strategy, which aims to put people at the heart of everything the Council does, continues to transform the way in which our residents, visitors, businesses and partners access our services. A new Customer Relationship Management System was procured to support the delivery of the strategy and its implementation and benefits will be monitored by Cabinet. The new system will build on progress made with the launch of the new website in October 2014 to provide further automated transactions and enhanced service information, reducing unnecessary direct customer contact. Since October 2014, the average number of



visits to the site is over 290,000 per month with the most popular pages including traffic cameras, job vacancies and planning applications.

80. The Council continues to engage with employees with positive and productive outcomes. February's employee roadshows were attended by around 850 people, many of whom took the opportunity to raise issues directly with the new chief executive. Also, more than 2,000 employees took part in an internal communications survey at the end of 2015. Almost 75 per cent said they would 'always' or 'mostly' speak highly of the council, which is above the national average across all business sectors. The information collected is now being used to improve internal communications, with further work being done to give employees more opportunities to have a say on council issues. Finally, in response to a staff suggestion through the Open Doors scheme, opening hours at the council's main headquarters were temporarily extended to help employees avoid peak traffic times and, in this way, reduce the impact on commuters during repairs to Durham City's Milburngate Bridge.

## REVIEW OF EFFECTIVENESS

81. 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 the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the annual report of the Chief Internal Auditor and Corporate Fraud Manager, and also by comments made by the external auditors and other review agencies and inspectorates.
82. Maintaining the effectiveness of the corporate governance framework involves the key Member and Officer roles outlined below, namely:
- The Executive;
  - Chief Financial Officer;
  - Monitoring Officer;
  - Overview and Scrutiny Committee;
  - Standards Committee;
  - Audit Committee.
83. The Council's Constitution sets out the governance roles and responsibilities of these functions. In addition:
- The Corporate Director Resources co-ordinates and oversees the Council's corporate assurance arrangements by:
  - Preparing and maintaining the Council's Code of Corporate Governance as a formal framework for the Council's governance arrangements;

- Reviewing the systems, processes and documentation to determine whether they meet the requirements of this Code, reporting any breaches and recommending improvements;
- Preparing an Annual Governance Statement to demonstrate how far the Council complies with the principles of good governance and recommending improvements.
- Internal and External Audit provide independent assurance on the effectiveness of the corporate governance framework.

84. The review was also informed by a statement provided by each Corporate Director and the Assistant Chief Executive commenting on the effectiveness of the Council’s governance arrangements generally and how they impacted on their service areas. These included consideration of the effectiveness of internal controls.

85. Based on the delivery of the internal audit plan, Internal Audit is able to provide a moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2015/16. This opinion ranking provides assurance that, whilst there is basically a sound system of control, there are some weaknesses, which may put some of the system objectives at major risk. Given the extent of change across the Council and the overall reduction in resources during the year, the sustainment of this assurance opinion should be regarded as a positive outcome.

**SIGNIFICANT GOVERNANCE ISSUES**

86. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. The Council is fully committed to the principles of corporate governance, and has made further progress during the past twelve months in developing its arrangements.

**Update on improvements identified in the 2014/15 Annual Governance Statement**

87. Following the production of the Annual Governance Statement for 2014/15, one improvement action was identified for 2015/16.

| No. | Actions to be taken   | Lead Officer   |
|-----|---|--|
| 1   | Production of County Durham Plan Strategy in response to interim report from Planning Inspector | Head Of Planning and Assets, Regeneration and Economic Development |

In April 2014, the Council submitted the County Durham Plan to the Government and this was followed by an examination in public. After the Planning Inspector's Report rejected the plan, the council challenged the report and it was subsequently quashed by the High Court. Following discussions with the Department for Communities and Local Government and the Planning Inspectorate, legal advice was sought and the Council decided to undertake a three stage process in preparation of a new local plan, which will also ensure meaningful engagement with the community and stakeholders. In the meantime, members have endorsed a revised Policy Position Statement to clarify how development proposals will be handled to ensure that appropriate sustainable development is not delayed. An Issues and Options papers was presented to Cabinet on 15 June 2016 to start the consultation process on developing a new Local Plan.

## Conclusion

88. In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2015/16 were fit for purpose in accordance with the governance framework. As a result of the review of governance arrangements, and the work of both internal and external audit, we have identified two actions as being necessary to improve governance arrangements in 2016/17. This is shown in the table below.

### Proposed Governance Improvements required during 2016/17

| No. | Actions to be taken   | Lead Officer   |
|-----|---|--|
| 1   | Implement an action plan to enable approval of the County Durham Plan within statutory requirements   | Head Of Planning and Assets, Regeneration and Economic Development |
| 2   | Implement a new chief officer structure to reflect the challenges faced by the Council whilst building on existing organisational strengths | Chief Executive Officer  |

**Signed:**

Simon Henig  
Leader of Durham County Council

Terry Collins  
Chief Executive

Paul Darby  
Interim Corporate Director, Resources

**Academy School**

Academy Schools are directly funded by Government and are independent of the Council's control.

**Accounting Period**

The period of time covered by the Statement of Accounts, normally a period of 12 months starting on 1 April. The end of the period is the balance sheet date.

**Accounting Policies**

The principles, conventions, rules and practices applied that specify how transactions and other events should be reflected in the financial statements.

**Accounting standards**

Accounting standards are authoritative statements of how particular types of transactions and other events should be reflected in financial statements and accordingly compliance with accounting standards will normally be necessary for financial statements to give a true and fair view.

**Accruals**

The concept that income, and expenditure are recognised as they are earned or incurred, not as money is received or paid.

**ACE**

Assistant Chief Executives Service

**Actuary**

An actuary is an expert on pension scheme assets and liabilities. Every three years, the Actuary for the Local Government Pension Scheme determines the rate of employer contributions due to be paid to the Pension Fund.

**Actuarial Basis**

The technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements.

**Actuarial Gains**

These may arise on a defined benefit pension scheme's liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated).

**Actuarial Losses**

These may arise on a defined benefit pension scheme's liabilities and assets. A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated).

**Added Years**

Additional years of service awarded discretionally to increase the benefits to employees taking early retirement.

**Admitted Bodies**

Organisations that take part in the Local Government Pension Scheme with the agreement of the Pension Fund. Examples of such bodies are housing associations and companies providing services that were once provided by local authorities in the Pension Fund.

### **Agency Services**

These are services that are performed by or for another Authority or public body, where the principal (the Authority responsible for the service) reimburses the agent (the Authority carrying out the work) for the costs of the work.

### **Annual Governance Statement**

The statement gives assurance that appropriate mechanisms are in place to direct and control the activities of the Council.

### **Amortisation**

Amortisation is the equivalent of depreciation for intangible assets.

### **Apportionment**

A way of sharing costs using an appropriate method, e.g. floor area for an accommodation-related service.

### **Appropriation**

The transfer of sums to and from reserves, provisions, and balances.

### **Assets**

An item having a monetary value to the Council, e.g. property, investments or cash.

### **Assets Held for Sale**

Long term assets that are surplus to the Council's operational needs that are being actively marketed for sale with the expectation that disposal will occur within a 12 month period.

### **Assets Under Construction**

Capital expenditure on assets, where the work is incomplete.

### **Associate**

An associate is an organisation over which the Council has significant influence, but not control. An associate cannot be a subsidiary or an interest in a joint venture.

### **Audit of Accounts**

An independent examination of the Council's financial affairs.

### **Authorised Limit**

This is the maximum limit of external borrowings or other long term liabilities.

### **Available for Sale Financial Instruments Reserve**

The reserve carries the valuation surplus on those investments with a quoted market price or otherwise do not have fixed or determinable payments, which under the Code, are classified as available for sale. The surplus is the amount by which fair value exceeds historical cost.

### **Balance Sheet**

This is a financial statement that shows the financial position of the Council at a point in time, the balance sheet date, which for the Council is 31 March. It shows the value of the fixed and net current assets and long term liabilities, as well as the reserves and balances.

**Bid Price**

In the context of stock trading on a stock exchange, the bid price is the highest price a buyer of a stock is willing to pay for a share of that given stock.

**Billing Authority**

Durham County Council is the billing authority responsible for the collection of Council tax and non-domestic rates. The Council tax includes amounts for precepting authorities.

**Bonds**

A type of investment in certificates of debt issued by the government of a company. These certificates represent loans which are repayable at a future specified date with interest.

**Borrowing**

Loans from the Public Works Loans Board, and the money markets, that finance the capital programme of the Council.

**Budget**

The Council's plans and policies for the period concerned, expressed in financial terms.

**Building Schools for the Future (BSF)**

Government investment programme with the aim of rebuilding or renewing every secondary school in England over a 10-15 year period.

**Business Improvement District (BID)**

BIDs are provided for under Part 4 of the Local Government Act 2003 whereby a levy is collected from Business ratepayers to provide agreed additional services.

**Capital Adjustment Account (CAA)**

This account accumulates the write down of the historical cost of non-current assets as they are consumed by depreciation and impairments or written off on disposal. It also accumulates the resources that have been set aside to finance capital expenditure. The balance on the account represents timing differences between the amount of the historical cost of non-current assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

**Capital Charge**

Charges made to local authority services to reflect the 'cost' of using non-current assets in the provision of services. The charge comprises the annual provision for depreciation. To ensure that these notional charges do not impact on local taxation they are reversed out in the Movement in Reserves Statement.

**Capital Expenditure**

Expenditure on the acquisition or construction of non-current assets that have a value to the Council for more than one year, or expenditure which adds to and not merely maintains the value of existing non-current assets.

**Capital Financing Costs**

These are the revenue costs of financing the capital programme and include the repayment of loan principal, loan interest charges, loan fees and revenue funding for capital.

### **Capital Financing Requirement (CFR)**

This sum represents the authority's underlying need to borrow for capital purposes. It is calculated by summing all items on the Balance Sheet that relate to capital expenditure, e.g. non-current assets, financing leases, government grants deferred etc. The CFR will be different to the actual borrowing of the authority. This figure is then used in the calculation of the Council's Minimum Revenue Provision.

### **Capital Grants Unapplied Account**

Grants that have been recognised as income in the Comprehensive Income and Expenditure Account (CIES) but where expenditure has not yet been incurred

### **Capital Receipts**

The proceeds from the sale of capital assets such as land, and buildings. These sums can be used to finance capital expenditure.

### **Carbon Reduction Commitment (CRC)**

The Council has to account for its obligations in relation to the purchase and surrender of CRC allowances and for the eventual settlement of the liability.

### **Carrying Amount**

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

### **CAS**

Children and Adults Services

### **Cash Flow Statement**

This Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

### **Chartered Institute of Public Finance and Accountancy (CIPFA)**

The principal accountancy body dealing with local government finance.

### **CLG**

Department for Communities and Local Government

### **Code**

The Code of Practice on Local Authority Accounting. A publication produced by CIPFA constituting proper accounting practice for Local Authorities.

### **Collection Fund**

An account kept by the Council into which Council tax is paid and through which national non-domestic rates pass, and which pays out money to fund expenditure from the General Fund and the precept made by the Police and Fire Authority.

### **Community Assets**

Assets held that are planned to be held forever, that have no set useful life and may have restrictions on how they can be sold or otherwise disposed of. e.g. parks, historic buildings.

### **Componentisation**

The process by which assets are analysed into various components that have significantly different estimated lives. The Council's accounting policy is detailed in paragraph 20 of the Accounting Policies.



**Comprehensive Income and Expenditure Account (CIES)**

This statement reports the net cost of services for which the Council is responsible and demonstrates how that cost has been financed.

**Constitution**

The document that sets out how the County Council operates, how decisions are made and the procedures that are followed.

**Contingency**

This is money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

**Contingent Asset**

Potential benefits that the Council may reap in the future due to an event that has happened in the past.

**Contingent Liabilities**

Potential costs that the Council may incur in the future due to something that has happened in the past.

**Corporate Democratic Core**

The corporate and democratic management costs are the costs of activities that local authorities undertake specifically because they are elected multi-purpose authorities. They cover corporate policy making, representing local interests, services to elected members as local representatives and duties arising from public accountability.

**Corporate Governance**

The promotion of corporate fairness, transparency, and accountability. The structure specifies the responsibilities of all stakeholders involved and the rules and procedures for making decisions.

**Council Tax**

This is a tax which is levied on the broad capital value of domestic properties, and charged to the resident or owner of the property.

**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.

**Creditors**

Persons or bodies to whom sums are owed by the Council.

**CSR**

Comprehensive Spending Review.

**Current Service Cost**

Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

### **Current Value**

The current value of an asset reflects the economic environment prevailing for the service or function the asset is supporting at the reporting date.

### **Curtailement**

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

### **Debtors**

Persons or bodies who owe sums to the Council.

### **Dedicated Schools Grant (DSG)**

A specific grant paid to Local Authorities to fund the cost of running their schools.

### **Deferred Capital Receipts**

These represent capital income still to be received after disposals have taken place.

### **Deficit**

A deficit arises when expenditure exceeds income or when expenditure exceeds available budget.

### **Defined Benefit Scheme**

Also known as a final salary scheme. Defined benefit pension schemes prescribe the amounts members will receive as a pension regardless of contributions and investment performance. Employers are obliged to fund any shortfalls.

### **Defined Contribution Scheme**

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed 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 employees benefits relating to employee service in the current year and prior periods.

### **Delegated Budgets**

Budgets for which schools or other services have complete autonomy in spending decisions.

### **DfE**

Department for Education

### **Depreciation**

The fall in the value of an asset, as recorded in the financial records, due to wear and tear, age, and obsolescence.

### **Derecognition**

Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.

### **Derivatives**

Derivatives are financial instruments that derive their value from the price or rate of some underlying item.

**Direct Revenue Financing (DRF)**

The cost of capital projects that is financed directly from the annual revenue budget.

**Direct Service Organisations (DSOs)**

Workforces employed directly by local authorities to carry out works of repair, maintenance, construction etc. of buildings, grounds and roads and to provide catering and cleaning services and repairs and maintenance of vehicles.

**Earmarked Reserves**

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

**Equities**

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings.

**Exceptional Items**

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

**External Audit**

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.

**Fair Value**

The value for which an asset can be exchanged or a liability can be settled in a market related transaction.

**FIDs and Manninen**

A claim has been lodged for Durham County Council Pension Fund and other Pension Funds for repayment of tax credits overpaid on Foreign Income Dividends (FIDs) and other dividends, referred to by name of the person whose case set the precedent, Manninen.

**Finance Lease**

A lease that transfers substantially all of the risks, and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset, together with a return for the cost of finance.

**Financial Instrument**

A contract that gives rise to a financial asset of one entity, and a financial liability, or equity instrument of another.

**Financial Instruments Adjustment Account (FIAA)**

This account is an unusable reserve which 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. Transfers are made to ensure that the General Fund records the amount required by the

applicable regulations or statutory guidance, the FIAA carries the excluded surplus or deficit.

### **Financial Regulations**

These are the written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

### **Fitch**

Fitch Ratings is a rating agency providing credit ratings research and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

### **Fixed Interest Securities**

Investments in mainly government, but also company stocks, which guarantee a fixed rate of interest. The securities represent loans that are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

### **Formula Grant**

The general government grant paid to support the revenue expenditure of local authorities. It comprises Revenue Support Grant and redistributed National Non-Domestic Rates. It is distributed by formula through the Local Government Finance Settlement.

### **Foundation Schools**

Foundation Schools are run by their governing body and they employ the staff. Land and buildings are usually owned by the governing body or a charitable foundation.

### **Funding Strategy Statement**

The Funding Strategy Statement is a clear and transparent fund-specific strategy which identifies how employers' pension liabilities are best met going forward; supports the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and takes a prudent longer-term view of funding the Fund's liabilities. The single strategy for all employers in the Fund is implemented and maintained by Administering Authority.

### **Futures**

A contract made to purchase, or sell an asset at an agreed price on a specified future date.

### **GAAP**

Generally Accepted Accounting Practice.

### **General Fund**

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

### **Going Concern**

The assumption that an organisation is financially viable, and will continue to operate for the foreseeable future.

**Government Grants**

Assistance by Government and inter-government agencies etc., whether local, national or international, in the form of cash or transfer of assets towards the activities of the Council.

**Group Accounts**

Many local authorities now provide services through partner organisations. Where an authority has material financial interests or a significant level of control over one or more entities it should prepare Group Accounts.

**Heritage Assets**

This is a separate class of asset (land, building, or artefact/exhibit) that is held principally for its contribution to knowledge or culture and meets the definition of a heritage asset.

**Highways Network Asset**

A grouping of interconnected components, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use. Components include carriageways, footways and cycletracks, structures, street lighting, street furniture, traffic management systems and land.

**Historical Cost**

The original purchase cost of an asset.

**Housing Benefit**

A system of financial assistance to individuals towards certain housing costs administered by Local Authorities and subsidised by central Government.

**Housing Revenue Account (HRA)**

This is a separate account to the General Fund, which includes the expenditure and income arising from the provision of housing accommodation by the Authority. The HRA is ring-fenced: no cross subsidy is allowed between the HRA and General Fund.

**IAS**

International Accounting Standard – regulations outlining the method of accounting for activities, currently being replaced by International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

**ICT**

Information and Communications Technology

**IFRIC**

Interpretations originated from the International Financial Reporting Interpretations Committee.

**IFRS**

International Financial Reporting Standards – issued and set by the International Accounting Standards Board (IASB). These are standards that companies and organisations follow when compiling their financial statements. They have been adapted to apply to local authorities and are consolidated in the Code of Practice on Local Authority Accounting (the Code). The Code applied to the Council's Statement of Accounts for the first time in 2010/11.

### **Impairment**

Impairment of an asset is caused either by a consumption of economic benefits e.g. physical damage (e.g. fire at a building) or deterioration in the quality of the service provided by the asset (e.g. a school closing and becoming a storage facility). A general fall in prices of a particular asset or type of asset is treated as a revaluation.

### **Index Linked Securities**

Investments in government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to government which can be traded on recognised stock exchanges.

### **Infrastructure Assets**

A fixed asset that cannot be taken away or transferred, and which can only continue to benefit from it being used. Infrastructure includes roads and bridges.

### **Intangible Assets**

Intangible assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

### **Intangible Heritage Asset**

An intangible asset with cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events.

### **Inventory**

Items of raw materials, work in progress or finished goods held at the financial year end, valued at the lower of cost or net realisable value.

### **Investment**

An asset which is purchased with a view to making money by providing income, capital appreciation, or both.

### **Investment Properties**

Interest in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arm's length.

### **IPSAS**

International Public Sector Accounting Standards Board.

### **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 entities under a contractual or other binding arrangement.

### **LAAP Bulletin**

CIPFA's Local Authority Accounting Panel (LAAP) periodically issues bulletins to local authority practitioners, providing guidance on topical issues and accounting developments and, when appropriate, clarification on the detailed accounting requirements.

### **Large Scale Voluntary Transfer (LSVT)**

A Large Scale Voluntary Transfer (LSVT) involves the council transferring ownership of its homes with the agreement of its tenants to a new or existing Registered Provider.

**Leasing**

A method of funding expenditure by payment over a defined period of time. An operating lease is similar to renting; the ownership of the asset remains with the lessor and the transaction does not fall within the capital system. A finance lease transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee and falls within the capital system.

**Levy**

A levy is a charge made by one statutory body to another in order to meet the net cost of its services, e.g. payments to the Environment Agency for flood defence and land drainage purposes.

**Liabilities**

An obligation to transfer economic benefits. Current liabilities are usually payable within one year.

**LGR**

Local Government Re-organisation.

**Long-Term Investments**

Investments intended to be held for use on a continuing basis in the activities of the Council where that intention can be clearly demonstrated or where there are restrictions on the ability to dispose of the investment.

**Major Repairs Allowance (MRA)**

The MRA was an element of housing subsidy, and represented the capital cost of keeping HRA dwellings stock in its current condition. It largely replaced credit approvals as a means of financing HRA capital expenditure.

**Managed Funds**

A type of investment where a number of investors pool their money into a fund, which is then invested by a fund manager.

**Materiality**

An expression of the relative significance of a particular issue in the context of the organisation as a whole.

**Market Value**

The monetary value of an asset as determined by current market conditions.

**Mid-Market Price**

The mid-point between the bid price and the offer price for a security based on quotations for transactions of normal market size by recognised market-makers or recognised trading exchanges.

**Minimum Revenue Provision (MRP)**

The minimum amount, which must be charged to revenue in the year, for the repayment of debt (credit liabilities and credit arrangements). The formula for calculating this amount is specified in legislation and requires authorities to make an annual provision of 4% of its underlying need to borrow. In addition, authorities can choose to make additional provision, known as a voluntary set-aside.

### **Minority Interest**

The interest in a subsidiary entity that is attributable to the share held by, or on behalf of persons other than the reporting authority.

### **Moody's**

Moody's Investor Service is a rating agency, providing credit ratings, research, and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

### **Movement in Reserves Statement**

This statement is a summary of the changes that have taken place in the bottom half of the balance sheet over the financial year. It shows the movement in reserves held by the Council analysed into 'usable' reserves and 'unusable' reserves.

### **MTFP**

Medium Term Financial Plan.

### **Myners' Principles**

A set of ten principles issued by Government which Pension Schemes are required to consider and to which they must publish their degree of compliance.

### **National Non-Domestic Rates (NNDR)**

The means by which local businesses contribute, to the cost of providing local authority services. The rates are paid into a central pool which is divided between all authorities as part of Formula Grant.

### **Net Book Value**

The amount at which non-current assets are included in the Balance Sheet. It represents historical cost or current value less the cumulative amounts provided for depreciation or impairment.

### **Net Cost of Service**

The actual cost of a service to the Council after taking account of all income charged for services provided. The net cost of service reflects capital charges and credits for government grants deferred made to services to reflect the cost of employing non-current assets.

### **Net Debt**

Net debt is the Council's borrowings less cash and liquid resources.

### **Net Expenditure**

The actual cost of a service to the Council after taking account of all income charged for services provided.

### **Net Realisable Value**

The expected sale price of stock, in the condition in which it is expected to be sold. This may be less than cost due to deterioration, obsolescence or changes in demand.

### **Non Current Assets**

Tangible or intangible assets that yield benefits to the authority and the services it provides for a period of more than one year. Tangible assets have physical substance, for example



land, buildings and vehicles. Intangible assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

**Non Distributed Costs**

These are overheads from which no service user benefits. They include the costs associated with unused assets and certain pension costs.

**Non-Operational Assets**

Non-operational assets are those held by an authority but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the authority. Examples include; assets under construction, land awaiting development, commercial property, investment property, and surplus assets held for disposal.

**Operating Lease**

A lease where the asset concerned is returned to the lessor at the end of the period of the lease.

**Operational Assets**

Property, plant and equipment held and occupied, used or consumed by the authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

**Operational Boundary**

This is the expected level of debt and other long term liabilities during the year.

**Outturn**

Actual expenditure within a particular year.

**Past Service Cost**

The increase in the present value of Pension Fund liabilities related to employees' service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits or other long-term employee benefits. Past service costs may be either positive, where benefits are introduced or improved) or negative (where existing benefits are reduced).

**Portfolio**

A number of different assets considered and managed as a whole by an investment manager, to an agreed performance specification.

**Precept**

An amount charged by another Authority to the Councils Collection Fund. There are two major preceptors in Durham County Councils collection fund: the Police and Fire Authorities.

**Precept Income**

County Councils obtain part of their income from precepts levied on the district councils in their area. Precepts, based on the council tax base of each district council, are levied on a collection fund, administered separately by each district council.

### **Prior Period Adjustment (PPA)**

Those material adjustments relating to prior years accounts, that are reported in subsequent years arising from changes in accounting policies or from the correction of fundamental errors. They do not include minor corrections or adjustments of accounting estimates made in prior years.

### **Private Finance Initiative (PFI)**

A government initiative that enables authorities to carry out capital projects, in partnership with the private sector, through the provision of financial support.

### **Property, Plant and Equipment (PPE)**

Property, Plant and Equipment covers all assets with physical substance (tangible assets) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

### **Provisions**

Provisions represent sums set aside to meet any specific future liabilities or losses arising from contractual obligations or as a result of past events. These events are likely or certain to be incurred and a reliable estimate can be made of the amount of the obligation.

### **Prudential Code**

The Government removed capital controls on borrowing and credit arrangements with effect from 1st April 2004 and replaced them with a Prudential Code under which each local authority determines its own affordable level of borrowing. The Prudential Code requires authorities to set specific prudential indicators on an annual basis.

### **Public Works Loans Board (PWLB)**

A government agency providing long and short-term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow.

### **RED**

Regeneration and Economic Development Service.

### **Related Party**

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.

### **Remuneration**

Includes taxable salary payments to employees less employees' pension contributions, together with non-taxable payments when employment ends (including redundancy, pension enhancement payments, and pay in lieu of notice), taxable expense allowances and any other taxable benefits.

### **Reporting Standards**

The Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of a Local Authority. It is based on International Financial Reporting Standards (IFRS), International Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) plus UK Generally Accepted Accounting Practice (GAAP) and Financial Reporting Standards (FRS).

**Reserves**

Sums set aside to fund specific future purposes rather than to fund past events. There are two types of reserve, 'usable' reserves and 'unusable' reserves.

**Revaluation Reserve**

The Revaluation Reserve records the accumulated gains on the non-current 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). The overall balance on the Reserve represents the amount by which the current value of non-current assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost.

**Revenue Contributions**

See 'Direct Revenue Financing'

**Revenue Expenditure and Income**

Expenditure and income arising from the day-to-day operation of the Council's services, such as salaries, wages, utility costs, repairs, and maintenance.

**Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

Expenditure that legislation allows to be classified as capital for funding purposes. However, it does not result in the expenditure being shown in the Balance Sheet as a fixed asset. This expenditure is charged to the relevant Service revenue account in the year.

Examples of this are grants and financial assistance to others, expenditure on assets not owned by the Council and amounts directed by the Government.

**Revenue Support Grant (RSG)**

A Government grant that can be used to finance expenditure on any service.

**RICS**

Royal Institution of Chartered Surveyors

**Section 151 Officer**

The officer designated under Section 151 of the Local Government Act 1972 to have overall responsibility for the administration of the financial affairs of the Council and the preparation of the Council's Statement of Accounts.

**Service Reporting Code of Practice (SeRCOP)**

The Code of Practice provides guidance to Local Authorities on financial reporting. It details standard definitions of services and total cost, which allows direct comparisons of financial information to be made with other local authorities.

**Specific Grant**

A revenue government grant distributed outside of the main Local Government Finance Settlement. Some specific grants are ring-fenced to control local authority spending. Others are unfenced and there are no restrictions as to how they are spent.

**Statement of Investment Principles (SIP)**

The Statement of Investment Principles details the policy which controls how a pension fund invests.

### **Subsidiary**

An entity is a subsidiary of a reporting entity if the authority is able to exercise control over the operating and financial policies of the entity and is able to gain benefits or be exposed to risk of potential losses from this control.

### **Supported Capital Expenditure (SCE)**

SCEs represent the amount of capital expenditure that the Government will support through the provision of revenue grant to cover the cost of borrowing, i.e. repayments of principal and interest.

### **Surplus**

Arises when income exceeds expenditure or when expenditure is less than available budget.

### **Surplus Properties**

Those properties that are not used in service delivery, but do not meet the classification of investment properties or assets held for sale.

### **Tangible Heritage Asset**

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

### **Tenanted Market Value**

The transfer price a Registered Provider will pay for the housing stock it acquires through a Large Scale Voluntary Transfer.

### **Transfer Agreement – Housing Stock Transfer**

The Transfer Agreement is the contract which sets out the rights, responsibilities, covenants and requirements of Durham County Council, and County Durham Housing Group (CDHG). It also contains all the necessary arrangements to enable CDHG to receive and manage the properties and the Council to enforce all the promises made to tenants during the consultation period. The Transfer Agreement takes the form of a contract for sale with numerous schedules and annexes containing supporting information.

### **Transfer Values**

Amounts paid to or received from other local and public authorities, private occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

### **Treasury Management Policy and Strategy**

A plan outlining the Council's approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year and is published annually in the Medium Term Financial Plan document.

### **Trust Funds**

Funds established from donations or bequests usually for the purpose of providing educational prizes and scholarships.

**Unit Trusts**

A pooled fund in which small investors can buy, and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.

**Unsupported (Prudential) Borrowing**

This is borrowing for which no financial support is provided by Central Government. The borrowing costs are to be met from current revenue budgets.

**Unusable Reserves**

Unusable reserves are reserves that the Council are not able to use to provide services, such as the revaluation reserve that arise from accounting requirements.

**Usable Capital Receipts Reserve**

Represents the resources held by the Council from the sale of non-current assets that are yet to be spent on other capital projects.

**Usable Reserves**

Usable reserves are reserves that the Council may use to provide services subject to the need to retain prudent levels of reserves and any statutory limitations to their use. Usable reserves include Earmarked Reserves and the General Reserve.

**Useful Life**

The period in which an asset is expected to be useful to the Council.

**Variance**

The difference between budgeted expenditure and actual outturn also referred to as an over or under spend.

**Work-in-Progress**

The value of rechargeable work that had not been recharged at the end of the financial year.

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**Audit Committee**

**29 July 2016**



**External Audit - Progress Report - July 2016**

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**Report of the External Auditor**

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**Purpose of the Report**

1. This report requests that the Committee note the external auditor's progress report on the external audit of Durham County Council to date.

**Background**

2. The report sets out an update of the work completed by Mazars (external auditor) in respect of the following: -
  - Summary of Audit Progress
  - Internal control recommendations

**Summary of Audit Progress**

3. Final fieldwork for the 2015/16 audit has commenced.
4. The report includes an internal control recommendation identified during IT control environment work.

**Recommendation**

5. The Committee is requested to note the contents of the external auditor's progress report.

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**Contact: James Collins**

**Tel: 03000 267452**

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**Appendix 1: Implications**

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**Finance**

No direct implications as a result of this report.

**Staffing**

None

**Risk**

None

**Equality and Diversity/Public Sector Equality Duty**

None

**Accommodation**

None

**Crime and disorder**

None.

**Human rights**

None

**Consultation**

None

**Procurement**

None

**Disability Discrimination Act**

None

**Legal Implications**

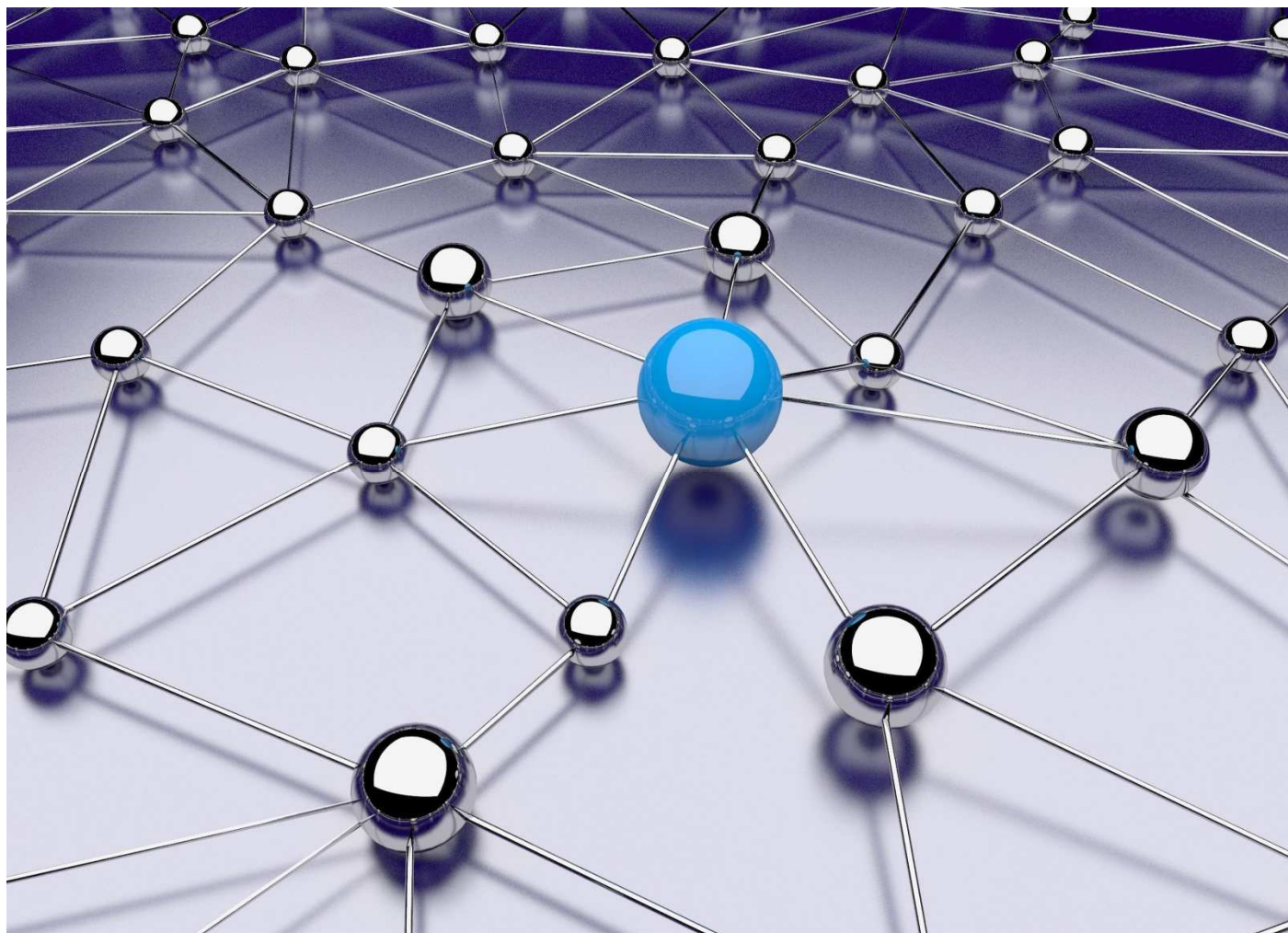
None



# Durham County Council

## Audit Progress Report

July 2016



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Our reports are prepared in the context of the Public Sector Audit Appointment Limited’s ‘Statement of responsibilities of auditors and audited bodies’. Reports and letters prepared by appointed auditors and addressed to Durham County Council, its Members, Directors or officers are prepared for the sole use of the audited body and we take no responsibility to any Member, Director or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

# 01 Introduction

The purpose of this report is to update the Audit Committee of Durham County Council (the Council) on progress in delivering our responsibilities as your external auditors.

If you require any additional information, please contact us using the contact details at the end of this update.

# 02 2015/16 audit

## 2015/16 planning

We presented our Audit Strategy Memorandum at the May 2016 Audit Committee. This document sets out the risks we have identified for both the opinion on the financial statements and the value for money conclusion, and our overall approach to the audit. No changes, either to the risks or our audit approach, have been identified since we issued this document.

## Final Fieldwork

We have commenced our final fieldwork including work on the following areas:

- Income and expenditure testing
- Debtors and creditors testing (notes 18 and 21)
- Property, Plant and equipment (note 12)
- Members expenses, officers' remuneration (notes 33 and 34).

The culmination of this work will be our Audit Completion Report which we will present to members in September 2016.

## Internal Control Recommendations

The purpose of our audit is to express an opinion on the financial statements. We consider the internal controls in place relevant to the preparation of the financial statements. We design audit procedures to reach our opinion rather than conclude on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

During our consideration of the IT control environment we identified some control recommendations that we consider to be of sufficient importance to merit being reported to those charged with governance. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our recommendations are rated to reflect the importance that we consider they pose to the Council. Our rating scale is as follows.

| Rating     | Description  |
|------------|--|
| 1 (high)   | In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately. |
| 2 (medium) | In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.   |
| 3 (low)    | In our view, internal control should be strengthened in these additional areas when practicable.   |

All recommendations are considered to be considered level 3 (low).

## Change Management

### Potential effects

We reviewed a number of system changes implemented during the financial year 2015/16. Whilst we confirmed that changes had been implemented following the appropriate procedures, there was no record maintained of who had signed off the final "go live" approval, or when this was actually signed off. The potential effect of this is that changes are not subject to appropriate "go live" approval prior to being implemented.

### Recommendation

Sign off of final go live approval should be formally recorded.

### Management response

Officers have accepted this is a weakness and have identified mitigating actions. In particular the Sharepoint will be used to document future change management sign offs.

Overall our work concluded that reliance can be placed on the IT General Controls operating over the systems identified as material for the 2015/16 financial audit and the underlying infrastructure. The above are not considered to be of sufficient significance to have an impact on the financial accounts.

# 03 Contact details

Please let us know if you would like further information on any items in this report.

[www.mazars.co.uk](http://www.mazars.co.uk)

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Aykley Heads,  
Durham,  
DH1 5TS.

**AUDIT COMMITTEE**

**29 July 2016**



**Compliance with International Auditing Standards**

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**Report of Councillor Edward Bell, Chair of the Audit Committee**

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**Purpose of the Report**

1. The purpose of this report is to advise Members of a response provided by the Chair of the Audit Committee relating to a letter sent from Mazars, the Council's external auditor, regarding compliance with International Auditing Standards.

**Background**

2. As part of the 2015/16 final accounts audit process, the external auditor is required to comply with a number of International Standards on Auditing and needs to obtain an understanding from, 'those charged with governance', of the processes regarding fraud and internal control, laws and regulations and potential for litigation and claims affecting the financial statements. This covers the opinion on the Council's 2015/16 accounts including the pension fund accounts.
3. A copy of the letter from Mazars and a copy of the response provided by the Corporate Director Resources, in relation to a similar request, are attached for information as Appendices 2 and 4 respectively.
4. The response provided by the Chair on behalf of the Audit Committee, is attached at Appendix 3.

**Recommendation**

5. Members are requested to note the response provided by the Chair of the Audit Committee and that provided by the Interim Corporate Director, Resources

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**Contact: Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager,  
Tel 03000 269645**

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**Appendix 1: Implications**

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**Finance**

None

**Staffing**

None

**Equality and Diversity**

None

**Accommodation**

None

**Crime and disorder**

None

**Human Rights**

None

**Consultation**

None

**Procurement**

None

**Disability Discrimination**

None

**Legal Implications**

None

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Chair of the Audit Committee  
Durham County Council

County Hall  
Durham  
DH1 5UE

Direct +44 (0)191 383 6331  
line

Email james.collins@mazars.co.uk

5 July 2016

Dear Cllr Bell

## **Durham County Council for year ended 31 March 2016**

### **Introduction**

This letter aims to summarise for the Audit Committee the requirements under International Auditing Standards (UK and Ireland) in respect of preventing fraud in the annual accounts, and compliance with laws and regulations, litigation and claims, going concern and related parties. It sets out the information we will require from the Audit Committee before we give our opinion on the Durham County Council's (the Council) 2015/16 accounts.

### **International Standard for Auditing (UK and Ireland) 240 - The auditor's responsibility to consider fraud in an audit of financial statements**

Under the ISA, the primary responsibility for preventing and detecting fraud rests with both management and 'those charged with governance', which for the Council is the Audit Committee. This includes fraud that could impact on the accuracy of the annual accounts. The ISA requires us, as external auditors, to obtain an understanding of how the Committee exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

What is 'fraud' in the context of the ISA?

The ISA views fraud as either:

- the intentional misappropriation of the Council's assets (cash, property, etc); or
- the intentional manipulation or misstatement of the financial statements.

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Tel: +44 (0) 191 383 6300 – Fax: +44 (0) 191 383 6350 – [www.mazars.co.uk](http://www.mazars.co.uk)

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INVESTOR IN PEOPLE

### **What are we required to do?**

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities if we are to properly discharge our responsibilities under ISA240. We are therefore making requests from the Audit Committee and management on the following, or similar, issues:

1) How does the Audit Committee oversee management's processes to identify and respond to the risk of fraud and possible breaches of internal control? In particular how the Committee oversees managements:

- Assessment of the risk that the financial statements may be materially misstated due to fraud or error;
- Processes for identifying and responding to risks of fraud in the organisation. This includes any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
- Processes for communicating to employees the views on business practice and ethical behaviour. For example updating, communicating and monitoring against the Council's code of conduct; and
- Processes for communicating to those charged with governance the arrangements for identifying and responding to fraud or error

2) Has the Audit Committee knowledge of any actual, suspected or alleged fraud during the period 1 April 2015 – 31 March 2016?

3) Has the Audit Committee identified any specific fraud risks within the organisation? For example does it have any concerns that specific areas within the organisation are at greater risk of fraud?

4) Is the Audit Committee aware of any significant breaches of internal control during 2015/16?

5) Is the Audit Committee satisfied that internal controls, including segregation of duties, exist and work effectively? If 'yes', please provide details of these controls. If not:

- Where are the risk areas?
- What other controls are in place to prevent, deter or detect fraud?

- 6) Is the Audit Committee aware of any related party relationships or transactions that could give rise to instances of fraud?
- 7) How does the Audit Committee mitigate the fraud risks associated with related party relationships and transactions?
- 8) Is the Audit Committee aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading? In particular:
- Are there particular balances where fraud is more likely to occur?
  - Is the Audit Committee aware of any assets, liabilities or transactions that it believes were improperly included or omitted from the accounts of the organisation?
  - Are there any external fraud risk factors which create a high risk of fraud?
- 9) Is the Audit Committee aware of any organisational, or management pressure to meet financial or operating targets?
- 10) Is the Audit Committee aware of any inappropriate organisational or management pressure being applied, or incentives offered, to employees to meet financial or operating targets?

## **International Standard for Auditing (UK and Ireland) 250 – Consideration of laws and regulations in an audit of financial statements**

### **Background**

Under the ISA, in the UK and Ireland, the primary responsibility for ensuring that the entity's operations are conducted in accordance with laws and regulations and the responsibility for the prevention and detection of non compliance rests with management and 'those charged with governance', which for the Council is the Audit Committee. The ISA requires us, as external auditors, to obtain an understanding of how the Committee gains assurance that all relevant laws and regulations have been complied with.

### **What are we required to do?**

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA250. We are therefore making requests from the Audit Committee, and will be making similar enquiries of management:

- 1) How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with. In particular:
- Is the Committee aware of the process management has in place for identifying and responding to changes in laws and regulations? Please provide details.
  - What arrangements are in place for the Committee to oversee this process?

- Is the Committee aware of the arrangements management have in place, for communicating with employees, non-executive directors, partners and stakeholders regarding the relevant laws and regulations that need to be followed?
- 2) Does the Committee have knowledge of actual or suspected instances where appropriate laws and regulations have not been complied with? If it is, what actions are management taking to address non-compliance?

### **International Standard for Auditing (UK and Ireland) 501 – Specific consideration of the potential for, and actual, litigation and claims affecting the financial statements**

#### **Background**

This ISA deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence, in this instance with respect to the completeness of litigation and claims involving the entity. The ISA requires us, as external auditors, to design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement.

#### **What are we required to do?**

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA+501. We are therefore making requests from the Audit Committee, and will be making similar enquiries of management:

- 1) Is the Audit Committee aware of any actual or potential litigation and claims involving the Council that would impact on the financial statements?

### **International Standard for Auditing (UK and Ireland) 570 – Consideration of the going concern assumption in an audit of financial statements**

#### **Background**

Financial statements are generally prepared on the basis of the going concern assumption. Under the going concern assumption, an audited body is ordinarily viewed as continuing in operation for the foreseeable future. Accordingly, assets and liabilities are recorded in financial statements on the basis that the audited body will be able to realise its assets and discharge its liabilities in the normal course of its operations.

#### **What are we required to do?**

If used, we are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements if we are to properly

discharge our responsibilities under ISA570. We are therefore making the following request from the Audit Committee:

- 1) How has the Audit Committee assessed and satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?
- 2) Has the Audit Committee identified any events or conditions since the assessment was undertaken which may cast significant doubt on the organisation's ability to continue as a going concern?

### **International Standard for Auditing (UK and Ireland) 550 – Related parties**

#### **Background**

The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. For example:

- Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.
- Information systems may be ineffective at identifying or summarizing transactions and outstanding balances between an entity and its related parties.
- Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.

Because related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. An understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA (UK and Ireland) 240, because fraud may be more easily committed through related parties.

#### **What are we required to do?**

Where the applicable financial reporting framework establishes requirements for related parties, the auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

Therefore we are making the following request from the Audit Committee:

- 1) What controls are in place to: identify, authorise, approve, account for and disclose related party transactions and relationships?
- 2) Confirmation that the Audit Committee have:

- disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and
- appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework

The information you provide will inform our understanding of the Council and its business processes, and to enable an opinion to be given on your 2015/16 financial statements.

I would be grateful for your responses. In the meantime, if you have any queries, please do not hesitate to contact me.

Yours sincerely



**James Collins**  
Manager



Contact: Cllr Edward Bell  
email: [edward.bell@durham.gov.uk](mailto:edward.bell@durham.gov.uk)

James Collins  
Manager  
Mazars LLP  
The Rivergreen Centre  
Aykley Heads  
Durham  
DH1 5TS

29 July 2016

Dear James,

**Audit of Durham County Council's Financial Statements 2015/16 including the Pension Fund Accounts – Compliance with International Auditing Standards**

Thank you for your letter dated 05 July 2016 regarding the above.

I have noted the response provided by Paul Darby as the Council's Section 151 Officer, in relation to the management arrangements in place for those areas covered by the International Auditing Standards you refer to, and would like to add the following comments from the Audit Committee's perspective.

**ISA 240 Consideration of fraud in the audit of the financial statements**

**1) *How does the Audit Committee oversee management's processes to identify and respond to the risk of fraud and possible breaches of internal control?***

The Audit Committee maintains an oversight of management processes in place for assessing the risk that the financial statements may be materially misstated by considering all the sources of assurance that it has available to it on the effectiveness of the internal control environment. This is demonstrated through quarterly internal audit progress reports and the Annual Audit Opinion and Internal Audit Report that is presented to the Committee by the Chief Internal Auditor and Corporate Fraud Manager.

The Audit Committee also receives quarterly risk reports from the Risk and Governance Manager where key strategic risks are brought to the attention of the Committee.

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The Audit Committee is responsible for considering proposed changes to the Council's Counter Fraud and Corruption Strategy and the Confidential Reporting Code (Whistleblowing) a revised version of both was approved in by the Committee during 2015/2016. The Audit Committee have also considered changes to the Council's Fraud Response Plan that supports the Counter Fraud and Corruption Strategy and to the Council's Money Laundering Policy during 2015/16 and continually monitor their effectiveness.

Members of the Committee are aware of how to report any suspected fraud and are satisfied that employees are encouraged to report their concerns about fraud and both are supported by the Confidential Reporting Code (Whistleblowing) which was formally reviewed and amended in June 2015 with a view to providing an e-learning course initially to employees in 2016/2017.

The Committee is responsible for considering any proposed amendments to the Council's Code of Local Governance prior to approval by Full Council, and maintains an understanding of key corporate policies and procedures that are an integral part of the Council's Internal Control Framework to help mitigate the risk of fraud e.g. officers and members code of conduct, financial procedure rules, contract procedure rules, officer scheme of delegations, complaints procedures and performance management arrangements.

**2) *Has the Audit Committee knowledge of any actual, suspected or alleged fraud during the period 1 April 2015 – 31 March 2016?***

The Audit Committee is aware that all suspected cases of corporate fraud must be reported to the Chief Internal Auditor and Corporate Fraud Manager and are advised of all potential and proven cases reported. Bi-annual 'Protecting the Public Purse' reports also advised the Committee of the number of Housing Benefit and Council Tax Benefit fraud cases that were handled up to 1 June 2015 when responsibility for investigating this type of fraud was transferred to the Department for Work and Pensions (DWP) as part of the Single Fraud Investigation Service (SFIS) programme.

Details of all actual, suspected or alleged fraud and action taken in response are as reported by the Chief Internal Auditor and Corporate Fraud Manager in their bi-annual reports. New potential cases of corporate fraud are also reported to the Committee as and when they arise and updates are provided through Internal Audit quarterly progress reports.

**3) *Has the Audit Committee identified any specific fraud risks within the organisation? For example does it have any concerns that specific areas within the organisation are at greater risk of fraud?***

The Committee is aware that certain posts, such as those involved with treasury management activities and those with access to the Council's bank accounts and cash carry a higher risk and consequently covered by fidelity guarantee insurance.

The Committee also receives assurance from Internal Audit from planned work around key financial systems and the counter fraud plan that is reported through quarterly Internal Audit progress reports and the bi-annual 'Protecting the Public Purse' reports.

The Committee therefore has no specific concerns that would impact on the Statement of Accounts as it gains the assurance required as described.

**4) *Is the Audit Committee aware of any significant breaches of Internal Control during 2015/2016?***

The Audit Committee receives quarterly Internal Audit progress reports. These progress reports highlight any assurance audit that has been given a 'Limited' assurance audit opinion. The Chief Internal Auditor and Corporate Fraud Manager has established 'follow up' arrangements in place to give the Audit Committee assurance that recommendations to improve the Internal Control environment are being made. Therefore the Audit Committee can confirm that they are unaware of any significant breaches of Internal Control during 2015/2016 that impact negatively on the Statement of Accounts.

**5) *Is the Audit Committee satisfied that internal controls, including segregation of duties, exist and work effectively?***

The Audit Committee receives the Annual Audit Opinion and Internal Audit Report from the Chief Internal Auditor and Corporate Fraud Manager that gives assurance that the Internal Controls are working effectively and also receive regular quarterly reports on Internal Audit progress. As such the Audit Committee is satisfied that internal controls both exist and work effectively.

In addition the Audit Committee also reviews the draft Annual Governance Statement where in addition to the assurance from the Chief Internal Auditor and Corporate Fraud Manager the Committee also receive statements from Corporate Directors that confirm from their perspective that controls are working effectively.

**6) *Is the Audit Committee aware of any related party relationships or transactions that could give rise to instances of fraud?***

The Audit Committee is not aware of any related party relationships or transactions that could give rise to instances of fraud.

**7) *How does the Audit Committee mitigate the fraud risks associated with related party relationships and transactions?***

The Audit Committee is aware that all Members and Corporate Management Team are required to complete an annual return of related party relationships and transactions and guidance notes have been issued to support their completion. Where any related transactions are declared extracts are obtained from Accounts Payable (Creditors) to identify actual payments made and received.

In addition, Internal Audit carries out periodic reviews of all employees and members' declarations to help identify any potential undeclared relationships and / or fraudulent transactions using outputs from data matching exercises. The last review was completed as part of the National Fraud Initiative 2015/16.

The Committee is also aware that Corporate Finance have prepared a list of all related party transactions, with an explanation of the nature of these and whether any transactions have been entered into with these related parties during 2015/2016. These are included in the 2015/2016 statement of accounts for the Audit Committee's approval in July 2016.

**8) *Is the Audit Committee aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading?***

The Audit Committee is not aware of any specific entries made in the accounting records of the Council that it believes or suspects are false or intentionally misleading.

**9) *Is the Audit Committee aware of any organisational, or management pressure to meet financial or operating targets?***

The Audit Committee is not aware of any organisational or management pressure to meet financial or operating targets.

**10) *Is the Audit Committee aware of any inappropriate organisational or management pressure being applied, or incentives offered, to employees to meet financial or operating targets?***

The Audit Committee is not aware of any inappropriate organisational or management pressure being applied or incentives offered, to employees to meet financial or operating targets.

**ISA 250 – Consideration of laws and regulations in an audit of financial statements**

**1) *How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with?***

The Audit Committee is responsible for the review of the Council's Local Code of Corporate Governance and approving the Annual Governance Statement and is therefore aware of management arrangements in place for identifying and responding to changes in laws and regulations and any significant governance issues arising as a result.

The Audit Committee gains independent assurance over the effectiveness of the arrangements in place through the work of Internal and External Audit and other external review bodies.

The Audit Committee receives regular updates on the management of strategic risks that include risks relating to non-compliance with laws and regulations.

**2) *Does the Committee have knowledge of actual or suspected instances where appropriate laws and regulations have not been complied with?***

The Audit Committee does not have any knowledge of any actual or suspected instances where appropriate laws and regulations have not been complied with.

**ISA 501 – Specific consideration of the potential for, and actual, litigation and claims affecting the financial statements**

**1) *Is the Audit Committee aware of any actual or potential litigation and claims involving the Council that would impact on the financial statements***

The Audit Committee is aware of the monitoring and reporting arrangements in place of financial risks associated with potential litigation claims and seeks to gain assurance that revised processes are effective and that any material amounts, significant risks or control implications are brought to its attention.

**ISA 570 – Consideration of the going concern assumption in an audit of financial statements**

**1) *How has the Audit Committee assessed and satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?***

The Audit Committee considered a report of the Interim Corporate Director, Resources at its meeting on 30 June 2016 relating to an assessment of the going concern assumption. The Committee is satisfied that it is appropriate to adopt the going concern basis in preparing the 2015/2016 financial statements.

**2) *Has the Audit Committee identified any events or conditions since the assessment was undertaken which may cast doubt on the organisation's ability to continue as a going concern?***

The Audit Committee has not identified any events or conditions since this assessment was considered which casts any doubt on the Council's ability to continue as a going concern.

**ISA 550 – Related Parties**

**1) *What controls are in place to: identify, authorise, approve, account for and disclose related party transactions and relationships?***

As described under question 7 of ISA 240, the controls in place also mitigate the risk of fraud in relation to related party transactions and relationships.

The Audit Committee is aware that all Members and Corporate Management Team are required to complete an annual return of related party relationships and transactions and guidance notes have been issued to support their completion. Where any related transactions are declared extracts are obtained from Accounts Payable (Creditors) to identify actual payments made and received.

In addition, Internal Audit carries out periodic reviews of all employees and members' declarations to help identify any potential undeclared relationships and / or fraudulent transactions using outputs from data matching exercises. The last review was completed as part of the National Fraud Initiative 2015/16.

The Committee is also aware that Corporate Finance has prepared a list of all related party transactions, with an explanation of the nature of these and whether any transactions have been entered into with these related parties during 2015/2016. These will be included in the 2015/2016 statement of accounts for the Audit Committee's approval in July 2016.

**2) Confirmation that the Audit Committee have disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware and appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.**

The Audit Committee confirms that the identity of all the authority's related parties have been appropriately disclosed in accordance with the requirements of the framework.

If you have any further questions or comments on the content of this letter please do not hesitate to contact me.

Yours sincerely

Councillor Edward Bell  
Chair of Durham County Council Audit Committee

Contact: Interim Corporate Director, Resources  
Direct Tel: 03000 261943  
email: paul.darby@durham.gov.uk  
Our ref: PB/PC



James Collins  
Manager  
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15 July 2016

Dear James,

**Audit of Durham County Council's Financial Statements 2015/16 including the Pension Fund Accounts – Compliance with International Auditing Standards**

Thank you for your letter dated 05 July 2016. Please find below my responses to the questions that you have asked.

**ISA 240 Management processes in place in relation to fraud**

- 1) ***We seek an understanding of management's assessment of the risk that the financial statements may be misstated due to fraud.***
  - a) ***How does management undertake its assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments)?***

Management's assessment of the risk that the financial statements may be misstated due to fraud or error is informed by consideration of various sources of assurance on the adequacy of the control environment relating to key financial systems.

Sources of assurance include front line service managers' supervisory controls, corporate risk management arrangements and performance management arrangements.

Internal Audit review key financial systems on an annual basis, using a risk based approach, to provide independent assurance that expected controls are effective in reducing the likelihood of material fraud error. Internal Audit will also consider financial risks as part of planned assurance reviews of key service activities agreed within the annual Internal Audit plan. The risk based approach used by Internal Audit involves working with service managers to agree and assess key risks, key controls and other assurance sources using a Control Risk Assessment (CRA) methodology. This enables Internal Audit resources to be targeted to high risk areas where there is little or no

**Resources**

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assurance. At the end of an audit, the CRA is updated with details of actual controls in place which provides a basis for responsible officers to carry out Control Risk Self Assessments (CRSA).

Assurance is also provided by the external auditor and other external review agencies e.g. Her Majesty's Revenues and Customs. Any agreed actions to improve the control environment are regularly monitored to ensure they are implemented in a timely manner.

Ongoing consideration of the various sources of assurance allow for continuous assessment of the risk of material misstatement. Risks will also be assessed as part of the planning and preparation of annual internal audit plans.

***b) What is management's process for identifying and responding to risks of fraud in the Council, including any specific risks of fraud which management have identified or that have been brought to its attention or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist?***

Managers are responsible for the implementation of controls to reduce the likelihood and / or impact of fraud occurring in their service areas.

The risk of fraud and corruption is recognised as a strategic risk and monitored through the Corporate Risk Management process.

The Chief Internal Auditor and Corporate Fraud Manager is responsible for the development and effective implementation of the Council's Counter Fraud and Corruption Strategy which has recently been refreshed and leads on a number of initiatives to help combat fraud through raising awareness of the risks, supported through a dedicated Corporate Fraud Team which in 2015/16 included Housing Benefit and Council Tax Benefit investigations up until the 01 June 2015 when the function of investigating Housing Benefit and Council Tax Benefit Fraud was transferred to Department for Work and Pensions. Fraud and corruption risks will be considered in consultation with service managers as part of the CRA process outlined above.

Internal Audit assess the fraud risk to which the Council may be exposed on an annual basis as part of the annual internal audit planning process and make provision within the annual internal audit plan for conducting a number of specific counter fraud reviews aimed to prevent and detect fraud in high risk areas. This annual assessment will consider risks identified externally such as those highlighted in the CIPFA's Counter Fraud Tracker, The European Institute for Combatting Corruption and Fraud (TEICCAF) Protecting the Public Purse Survey, the National Fraud Authority's "Fighting Fraud Locally", the National Anti-Fraud Network (NAFN) and various audit/counter fraud networking groups.

The Council's Counter Fraud and Corruption Strategy is supported by a Fraud Response Plan that sets out the process to be followed if fraud is suspected.

All cases of suspected corporate fraud must be reported to the Chief Internal Auditor and Corporate Fraud Manager who will then agree, with the appropriate officers, how the matter will be investigated.



The Chief Internal Auditor keeps a register of all suspected cases of corporate fraud and monitors and reports upon counter fraud activities.

The Council has a 'zero tolerance' approach to fraud and proven cases will be dealt with under the appropriate disciplinary procedures and, if considered appropriate, a referral to the Police will be made. Wherever possible any monies lost will be recovered by all means available to the Council.

The investigation and outcomes of all cases of corporate fraud are monitored and reported as part of Internal Audit's quarterly progress reporting to Corporate Directors. In addition a bi-annual Protecting the Public Purse report is prepared for the consideration of Corporate Management Team summarising counter fraud initiatives, new and emerging risk, reported cases and outcomes.

Control weaknesses identified as a result of reported, suspected cases will be reviewed in consultation with service managers to reduce the impact or likelihood of the risk reoccurring. Any recommendations made to improve the control environment will be monitored by Internal Audit.

**c) *What arrangements does management have in place to communicate to employees regarding its views on business practices and ethical behaviour (for example by updating, communicating and monitoring against the Council's code of conduct)?***

The Employee Code of Conduct is part of the induction package for all new starters and is easily accessible and sign posted on the Council's Website and Intranet. It is reviewed annually and employees are regularly reminded of their responsibilities under the Code through various methods of communication e.g. Employee Updates. There is also a link to the Code of Conduct in the Counter Fraud and Corruption Strategy that is also widely communicated to employees. Support is also provided to Schools and Governors in raising fraud awareness.

More counter fraud work is planned to help embed and maintain a strong counter fraud culture across the whole Council. Improvements made during 2015/2016 include the delivery targeted counter fraud awareness training as part of the new employee induction process. In addition a new e-training package is being developed for all current employees.

The monitoring of ethical behaviour will also be considered through the on-going day to day operational supervision and management of employees. The Council also has a performance management framework that includes an employee performance appraisal scheme that provides a more formal structured approach to consideration of ethical behaviour.

- d) How does management communicate the processes for identifying and responding to fraud or error to the Audit Committee (i.e. those charged with governance)?**

Bi-annual reports are made to the Audit Committee on counter fraud activity, reported and investigated cases and outcomes.

The Council's Confidential Reporting Code was reviewed by the Audit Committee in June 2015, amendments to the Council's Counter Fraud and Anti Money Laundering Policy were approved by the Audit Committee in February 2016 and the Council's Fraud Response Plan was refreshed and reported to the Audit Committee in November 2015.

New and emerging fraud risks have been brought to the Audit Committee's attention from the Audit Commission's Protecting the Public Purse briefing specifically prepared for Durham County Council. They are also informed through the annual Internal Audit plan for approval and through quarterly Internal Audit Progress reports.

- 2) Does management have knowledge of any actual, suspected or alleged fraud, either within the Council as a whole or within your department during the period 1 April 2015 to 31 March 2016? If so, what actions is management taking to address it?**

Management is aware of a number of proven and potential frauds. The majority of cases relate to those identified through data sharing exercises e.g. National Fraud Initiative ran by the Cabinet Office or through its own fraud and error investigative procedures.

Details of all actual, suspected or alleged fraud and action taken in response are as reported by the Chief Internal Auditor and Corporate Fraud Manager through bi-annual reports. New potential cases of corporate fraud will also be reported to respective Corporate Directors as and when they arise and updates provided through Internal Audit Quarterly progress reports or more frequently if necessary.

- 3) Does management have any suspicion that fraud may be occurring within the organisation?**

Within any organisation of the size of Durham County Council there is always the potential for fraud to be occurring. Hence, the risk of fraud and corruption is captured within the corporate strategic risk register. However, the policies and procedures and processes outlined above and the continual development of raising fraud awareness across the organisation seek to further embed a strong counter fraud culture and minimise the risk.

Specific fraud risks within the Council are identified through the internal fraud risk assessment process. This assessment is based on the monitoring and investigation of reported cases, consideration of the overall control environment operating within the Council and national fraud risk indicators. Fraud risks will also be considered in consultation with service managers as part of the annual internal audit planning process.

Management is aware that the extent of change across the Council together with the current economic climate has increased the risk of fraud and corruption. All suspicions reported by management referred to Internal Audit are as captured in bi-annual reports to Corporate Management Team and the Audit Committee.

**4) *Is management satisfied that internal controls, including segregation of duties, exist and work effectively?***

Independent assurance on the effectiveness of the control environment is provided through the work of Internal Audit as reported through individual audit reports, quarterly progress reports and the Annual Internal Audit Report. The latter was presented to Corporate Management Team and the Audit Committee in June 2016.

Corporate Directors also consider other assurance sources and the effectiveness of internal controls operating within their service groupings when providing assurance statements in support of the Council's Annual Governance Statement (AGS). This is was reported to Corporate Management Team and the Audit Committee in June 2016.

**5) *Is management satisfied that staff are encouraged to report their concerns about fraud, and the types of concerns they are expected to report?***

The Council has a Confidential Reporting Code (Whistleblowing) that has been refreshed in June 2015 and has been effectively communicated to all employees through an employee update, induction and is easily accessible. A 'Durham Managers' Fraud Awareness Training package is now offered to reinforce managers' responsibilities in relation to fraud and encourages staff to be more vigilant and report their concerns. There are dedicated counter fraud pages on the Council's intranet that provide information to employees on how to raise any concerns and what to do and what not to do if they suspect something is wrong. Whilst employees are encouraged to report any concerns initially through their line managers or Internal Audit, external contacts are also provided.

**6) *Is management aware of the posts which are considered to be high risk from a fraud and corruption perspective, and what action has been taken to manage the risk?***

Discussions on the risk of fraud and corruption are held with senior management as part of the consultation process on the preparation of the annual Internal Audit Plan and managers are reminded of their responsibilities for ensuring adequate controls are implemented to manage any identified risks.

Fraud awareness training developed specifically for managers will help consider fraud risks within operational areas and identify posts which are considered to be high risk and what to do about it.

Internal Audit develops an annual counter fraud programme of work, agreed by Corporate Management Team and the Audit Committee as part of their annual Internal Audit Plan, to provide independent assurance that internal controls are operation in high risk areas.

Fidelity guarantee insurance is also in place.

**7) *Is management aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to such relationships and transactions?***

The Council has an Employee Code of Conduct in place which clearly communicates the responsibilities of staff and requires officers to complete declarations of interest where appropriate. It is management's responsibility to ensure compliance with this Code and to monitor the nature of any interests declared.

The Council has a member's Code of Conduct in place which clearly communicates the responsibilities of members, during meetings, with regard to declarations of interests. Procedures are in place for the recording, maintaining and monitoring of such declarations.

A register of interests of members and co-opted members of the Council, as required under section 81(1) of the Local Government Act 2000, is maintained which details the declaration of financial and other interests.

All Members and the Corporate Management Team are required to complete an annual return of related party relationships and transactions and guidance notes have been issued to support their completion. Where any related transactions are declared extracts are obtained from Accounts Payable to identify actual payments made and received.

In addition, Internal Audit carries out periodic reviews of all employees and members' declarations to help identify any potential undeclared relationships and / or fraudulent transactions using outputs from data matching exercises. The last review was conducted during 2015 / 2016.

**8) *Is management aware of any entries made in the accounting records of the Council that it believes or suspects are false or intentionally misleading?***

Given the size and complexity of transactions reflected in the Council's accounting records there is always the potential for error or false accounting that could escape detection. However, internal controls and assurance on their effectiveness provides reasonable assurance that any such error would not be material.

I am not aware of specific entries that I believe are false or intentionally misleading.

**9) *Are you aware of any organisational or management pressure to meet financial or operating targets?***

I am not aware of any inappropriate organisational or management pressures being applied or incentives offered to anyone to meet financial or operating targets.

**ISA 250 Management processes in place in relation to compliance with relevant laws and regulations**

**10) *How does management gain assurance that all relevant laws and regulations have been complied with?***

The Council has a local Code of Corporate Governance developed in accordance with CIPFA/SOLACE guidance. This Code is part of the Council's Constitution and is communicated internally and externally. This is reviewed annually and corporate governance arrangements are in place, including those relating to compliance with relevant laws and regulations are regularly assessed by senior officers. The Annual Governance Statement is approved by the Corporate Management Team and the Audit Committee.

The Council's Monitoring Officer, the Head of Legal and Democratic Services, is generally responsible for ensuring that all laws and regulations impacting on County Council Services are disseminated to appropriate service managers and will arrange to brief the Corporate Management Team and Cabinet as considered appropriate on legal issues. Service managers are responsible for ensuring that laws and regulations relevant to their service area are complied with and for ensuring that any legal implications are identified and considered when any reports requiring key decisions are presented to Cabinet.

The Council's Financial Procedure Rules, which are also part of the Council's Constitution, provide the framework for managing the Council's financial affairs. There is specific provision within these procedures for the Chief Financial Officer to report to full Council, and to the Council's external auditors, if the Council or one of its officers:

- Has made, or is about to make a decision which involves incurring expenditure which is unlawful.
- Has taken or is about to take any unlawful action which has resulted in a loss or deficiency to the Council.
- Is about to make an unlawful entry in the Council's accounts.

I am not aware of any such issue having being reported.

Arrangements have been put in place within Assistant Chief Executive to prepare regular updates on new central government initiatives and consultation exercises which are circulated to senior managers as an early warning of potential new legislation and regulations.

Assurance that risks around compliance with laws and regulations are being effectively managed is provided through the Council's risk management processes.

Internal Audit carry out periodic reviews of the control framework in place for ensuring that services are kept up to date of any changes to legislation impacting on operations and carry out compliance testing.

Other functions within the Council also provide assurance on compliance e.g. Quality Assurance Audits within Children and Adult Services and Health and Safety Inspections.

External assurance is also provided through external inspection and review bodies.

**11) *Is management aware of any instances where the Council has not complied with any laws or regulations during 2015/16?***

I am aware of a number of cases involving actual or potential litigation action against the Council, that if proven may indicate non-compliance with legislation in a variety of subject areas. Records of all such cases are captured in a database maintained by Legal and Democratic Services as and when cases are referred to them for advice.

**12) *Has management complied with the Bribery Act 2010. What procedures are in place to ensure compliance?***

The Council has complied with the Bribery Act 2010.

The Council has incorporated the Bribery Act 2010's requirements into its Counter Fraud and Corruption Strategy which demonstrates a zero tolerance commitment to Bribery in all forms.

The Council has an Employee Code of Conduct in place which clearly communicates the responsibilities of staff and requires officers to complete gifts and hospitality registers where appropriate.

The Council has a member's Code of Conduct in place which clearly communicates the responsibilities of members, and requires members to complete gifts and hospitality registers where appropriate.

Procedures are in place for the recording, maintaining and monitoring of such registers.

Internal Audit complete independent periodic checks on the gifts and hospitality registers held within Service Groupings.

The Council conducts its recruitment practices in fair and transparent manner. This avoids risks in the recruitment process that could lead to unsuitable candidates being selected. The Council applies objective criteria for advertising and interviewing, and documents the application and the selection process. Appropriate due diligence is applied when appointing employees who are likely to be placed in any position of risk from bribery. New employees receive full information about the Council's Counter Fraud and Corruption Strategy and this forms part of induction training. Internal Audit also completes a periodic review of the Council's recruitment process to give independent assurance.

The Council gives substance to its zero tolerance approach of bribery through its agreed proactive fraud plan compiled as part of the Annual Internal Audit Plan.

**ISA 501 Litigation and claims that would effect the financial statements**

**13) *Is management aware of any actual or potential litigation or claims involving the Council which may result in a material misstatement of the financial statements***

The value of individual potential claims is captured in the central database maintained by Legal and Democratic Services. Arrangements have been put in place for monitoring and reporting financial risks associated with all potential claims to ensure that any uninsured risks are appropriately reflected in the financial statements and any incidences of non-compliance with legal requirements are identified and corrective action is taken to avoid a reoccurrence. Any individual cases with a significant value are brought to the attention of the appropriate Corporate Director and Corporate Director, Resources.

These arrangements are subject to periodic independent assurance reviews by Internal Audit.

Collectively, potential values are not considered to be material although I am aware of some cases where a contingent liability and / or provision may be necessary and these will be detailed in the Statement of Accounts 2015/16.

**ISA 550 Identification and assessment of the risks of material misstatement associated with related party relationships and transactions**

**14) *What controls does the Council have in place to identify, authorise, approve, account for and disclose related party transactions and relationships?***

The controls in place are those outlined in response to question 7 above.

**15) *Please provide a list of any new related parties (i.e. any not already disclosed in your 2014/15 audited financial statements) and explain the nature of these, and whether you have entered into any transactions with these related parties during the year to 31 March 2016***

The Council has financial relationships with two new companies which commenced during 2015/16 i.e. Chapter Homes and Forrest Park Limited. The nature of these relations is as follows:

- Chapter Homes Durham Limited was established as a private company limited by shares on 10 August 2015 and is owned 100% by Durham County Council. The Company has been established as a trading company to develop Council owned land for market housing sale and private market rent to generate revenue income, capital receipts and contribute to housing regeneration in County Durham. Construction work commenced in January 2016 on the first pilot site at Newton Aycliffe for the development of up to 125 homes.

- Forrest Park (Newton Aycliffe) Limited is a joint venture arrangement of which the Council owns 51% of the share capital of the Company. The Company was established on 31 March 2016 to develop Forrest Park as a prime location for manufacturing, logistics and administration. The aims of the Company will be to develop the site and maximise economic benefits from the commercial developments.

**ISA 570 Consideration of the going concern assumption in an audit of financial statements**

**16) *How has management assessed and satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?***

A full assessment has been carried out and the outcomes reported to the Audit Committee at its meeting on 30 June 2016. Based on the assessment undertaken I have concluded that the County Council is a going concern and it is appropriate for the Statement of Accounts to be prepared on this basis because:


- The County Council has a history of stable finance and ready access to financial resources in the future.
- There are no significant, operating or other risks that would jeopardise the County Council's continuing operation.

**17) *Has management identified any events or conditions since the assessment was undertaken which may cast significant doubt on the organisation's ability to continue as a going concern?***

No events or conditions have occurred since the assessment to cast significant doubt on the organisation's ability to continue as a going concern.

I hope this response is satisfactory however if you have any further questions or comments on the content of this letter please do not hesitate to contact me.

Yours sincerely



Paul Darby  
Interim Corporate Director, Resources



## Audit Committee

29 July 2016

### Strategic Risk Management Progress Report for the Quarter 1 2016/17 : Period April – June 2016



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## Report of Corporate Management Team Paul Darby, Interim Corporate Director Resources

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### Purpose of the Report

- 1 The purpose of this report is to highlight the strategic risks facing the Council and to give an insight into the work carried out by the Corporate Risk Management Group during the period April to June 2016.

### Background

- 2 Each Corporate Director has a designated Service Risk Manager to lead on risk management at a Service Grouping level. In addition, the Council has designated the Cabinet Portfolio Holder for Corporate Services and the Corporate Director, Resources as Member and Officer Risk Champions respectively. Collectively, they meet together with the Risk and Governance Manager as a Corporate Risk Management Group (CRMG). A summary setting out how the Council deals with the risk management framework is included in Appendix 2.
- 3 Throughout this report, both in the summary and the appendices, all risks are reported as 'Net Risk' (after putting in place mitigating controls to the 'gross risk' assessment), which is based on an assessment of the impact and likelihood of the risk occurring with existing controls in place.

### Current status of the risks to the Council

- 4 As at 30 June 2016, there were 23 strategic risks, the same number as at 31 March 2016.
- 5 In summary, the key risks to the Council are:
  - (a) If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.
  - (b) Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services;
  - (c) If we were to fail to comply with Central Government's Public Services Network Code of Connection and PPCI criteria for our computer

applications, this would put some of our core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data.

- (d) Failure to protect child from death or serious harm (where service failure is a factor or issue).
- (e) A service failure of Adult Safeguarding leads to death or serious harm to a service user.

- 6 Progress on addressing these key risks is detailed in Appendix 3, which also outlines in more detail the rationale for increasing the impact of risks d) and e) from major to critical, and thereby reporting them as key risks. Two new / emerging risks are also identified in Appendix 3, which will be subject to detailed assessment over the coming months.
- 7 Appendix 4 of this report lists all of the Council's strategic risks as at 30 June 2016.
- 8 Management has identified and assessed these risks using a structured and systematic approach, and is taking proactive measures to mitigate these risks to a manageable level. This effective management of our risks is contributing to improved performance, decision-making and governance across the Council. The future restructure of senior management will further develop and strengthen the Council's governance arrangement.

### **Recommendations and reasons**

- 9 Audit Committee is requested to confirm that this report provides assurance that strategic risks are being effectively managed within the risk management framework across the Council.

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**Contact: Teresa Morgan Tel: 03000 269657**

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## **Appendix 1: Implications**

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**Finance** – There are no direct financial implications but effective risk management helps to avoid or minimise financial loss.

**Staffing** - Staff training needs are addressed in the risk management training plan.

**Risk** – This report supports the delivery of the objectives of the Council’s Risk Management Strategy.

**Equality and Diversity/Public Sector Equality Duty** – None

**Accommodation** - None

**Crime and disorder** - None

**Human rights** - None

**Consultation** – None

**Procurement** – None.

**Disability issues** – None.

**Legal Implications** – There are no direct implications but effective risk management helps to ensure compliance with legal and regulatory obligations.

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## **Appendix 2: How the Council manages the Risk Management Framework**

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The Cabinet and the Corporate Management Team have designated the Cabinet Portfolio Holder for Corporate Services and the Corporate Director, Resources as Member and Officer Risk Champions respectively. Together they jointly take responsibility for embedding risk management throughout the Council, and are supported by the Chief Internal Auditor and Corporate Fraud Manager, the lead officer responsible for risk management, as well as the Risk and Governance Manager.

Each Service Grouping also has a designated Service Risk Manager to lead on risk management at a Service Grouping level, and act as a first point of contact for staff who require any advice or guidance on risk management. Collectively, the Risk Champions, Service Risk Managers and the Risk and Governance Manager meet together as a Corporate Risk Management Group. This group monitors the progress of risk management across the Council, advises on strategic risk issues, identifies and monitors corporate cross-cutting risks, and agrees arrangements for reporting and awareness training.

An Audit Committee is in place, and one of its key roles is to monitor the effective development and operation of risk management and overall corporate governance in the Authority.

It is the responsibility of the Corporate Directors to develop and maintain the internal control framework and to ensure that their Service resources are properly applied in the manner and to the activities intended. Therefore, in this context, Heads of Service are responsible for identifying and managing the key risks which may impact on their respective Service, and providing assurance that adequate controls are in place, and working effectively to manage these risks where appropriate. In addition, independent assurance of the risk management process, and of the risks and controls of specific areas, is provided by Internal Audit. Reviews by external bodies, such as the Audit Commission, Ofsted and Care Quality Commission, may also provide some independent assurance of the controls in place.

Risks are assessed in a logical and straightforward process, which involves the Risk Owner (within the Service) assessing both the impact on finance, service delivery or stakeholders if the risk materialises, and also the likelihood that the risk will occur over a given period. The assessment is confirmed by the Service Management Team.

An assurance mapping framework is being developed to demonstrate where and how the Council receives assurance that its business is run efficiently and effectively, highlighting any gaps or duplication that may indicate where further assurance is required or could be achieved more effectively.

The Council is also jointly responsible for responding to civil emergencies (such as severe weather events, network power losses and flu epidemics) through the County Durham and Darlington Local Resilience Forum. An explanation of the arrangements for managing the risk of such events and a copy of the latest Community Risk Register can be found on the web page of the County Durham and Darlington [Local Resilience Forum](#).

## **Appendix 3: Progress on the management of the Council’s Strategic Risks**

Risks are assessed at two levels:

- Gross Impact and Likelihood are based on an assessment of the risk without any controls in place;
- Net Impact and Likelihood are based on the assessment of the current level of risk, taking account of the existing controls/ mitigation in place.

As at 30 June 2016, there were 23 strategic risks, the same number as at 31 March 2016.

The following matrix categorises the strategic risks according to their Net risk evaluation as at 30 June 2016. To highlight changes in each category during the last quarter, the number of risks as at 31 March 2016 is shown in brackets.

### **Overall number of Strategic Risks as at 30 June 2016**

| <b>Impact</b>     |              |              |              |              |                 |
|-------------------|--------------|--------------|--------------|--------------|-----------------|
| Critical          | <b>1</b> (1) |              | <b>4</b> (2) |              | <b>1</b> (1)    |
| Major             |              | <b>1</b> (2) | <b>6</b> (7) |              |                 |
| Moderate          |              |              | <b>7</b> (7) | <b>3</b> (3) |                 |
| Minor             |              |              |              |              |                 |
| Insignificant     |              |              |              |              |                 |
| <b>Likelihood</b> | Remote       | Unlikely     | Possible     | Probable     | Highly Probable |

In the above matrix, the risk assessed as Critical/Highly Probable is, “Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services.” This risk is reported in more detail in section 9 below.

In summary, key points to draw to your attention are:

#### **New Risks**

- 1 There are no new risks this quarter.

#### **Increased Risks**

- 2 Following an incident in the data centre at Comeleon House when the overheating of a socket resulted in the fire alarm being activated, it highlighted a major concern of the lack of an adequate inspection and maintenance regime for Comeleon House. This has increased the likelihood of risk “*Major interruption to IT service delivery*” from **unlikely** to **possible** (RES).

3 The net impact of each of the following risks has increased from **major** to **critical**. As illustrated in the key risk matrix below, this combined with the net likelihood of possible raises them to key risk status. More information on the outlook for these risks, and how they are being managed, is included in the key risks schedule below.

(a) '*Failure to protect a child from death or serious harm (where service failure is a factor or issue)*' (CAS). The impact of this risk has been in response to a statutory change to when Serious Case Reviews are undertaken.

(b) '*A service failure of Adult Safeguarding leads to death or serious harm to a service user*' (CAS). The impact of this risk has increased as nationally there has been an increased awareness of potential vulnerabilities relating to adults with care and support needs.

### **Removed Risks**

4 No risks were removed this quarter

### **Reduced Risks**

5 No risks have been reduced this quarter.

### **Emerging Risks**

6 Following the referendum on Thursday 23 June 2016 where the United Kingdom voted to leave the European Union, it is anticipated that this will potentially adversely affect the economy, safety and welfare of the County, although the impact remains unknown at the present time. (ACE).

7 As the scope of potential liabilities related to outstanding equal value claims from 2005 becomes clearer, the financial risk to the Council could be significant and exceed the £9.5m earmarked reserve provision (RES).

### **Key Risks**

8 The Council's key risks are shown in the following table.

## Key Risks Matrix

| Net Impact            |  |          |   |          |  |
|-----------------------|--|----------|---|----------|--|
| Critical              |  |          | Risk 1 MTFP Slippage<br>Risk 3 PSN Code of Connection<br>Risk 4 Safeguarding children<br>Risk 5 Safeguarding adults |          | Risk 2 Ongoing Government funding cuts |
| Major                 |  |          |   |          |  |
| Moderate              |  |          |   |          |  |
| Minor                 | <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: auto;"> <p>In this matrix, the key risks have been arranged according to the net impact and net likelihood evaluations to illustrate their relative severity. The full title of each risk is shown in the Key Risks Schedule on the following pages.</p> </div> |          |   |          |  |
| Insignificant         |  |          |   |          |  |
| <b>Net Likelihood</b> | Remote   | Unlikely | Possible  | Probable | Highly Probable                        |

## Key Risks Schedule

The schedule on the following pages contains information about how the key risks are being managed, including proposed key actions. Where there have been changes to the risk assessment during the last quarter, these are highlighted in the column headed 'Direction of Travel'. The final column states when it is anticipated that the risk will have been reduced to an acceptable level.

|   | Service owning the risk            | Corporate Theme           | Risk   | Net Impact | Net Likelihood  | Proposed Key Actions  | Direction of Travel | Anticipated date when risk will be at an acceptable level  |
|---|------------------------------------|---------------------------|--|------------|-----------------|---|---------------------|--|
| 1 | RES<br>Risk Owner:<br>Paul Darby   | Altogether Better Council | If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.   | Critical   | Possible        | The Delivery plan implementation will be monitored by CMT and Cabinet.  |                     | This will be a significant risk for at least the next 4 years. No further mitigation is planned at the current stage.  |
| 2 | RES<br>Risk Owner:<br>Paul Darby   | Altogether Better Council | Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services.   | Critical   | Highly Probable | Sound financial forecasting is in place based on thorough examination of the Government's "red book" plans.                               |                     | This will be a significant risk for at least the next 4 years.   |
| 3 | RES<br>Risk Owner:<br>Phil Jackman | Altogether Better Council | If we were to fail to comply with Central Government's Public Services Network Code of Connection and PCI criteria for our computer applications, this would put some of our core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data. | Critical   | Possible        | An ongoing project is in place to ensure compliance. Servers that cannot be made compliant or effectively relocated will be switched off. |                     | The Government set criteria for the PSN CoCo compliance has changed again, one of the requirements being the need to submit a risk register. The risk register has been completed for submission in June 2016 and will be reviewed on a regular basis. |



| Ref | Service owning the risk         | Corporate Theme  | Risk   | Net Impact | Net Likelihood | Proposed Key Actions   | Direction of Travel  | Anticipated date when risk will be at an acceptable level  |
|-----|---------------------------------|------------------|--|------------|----------------|--|----------------------|--|
| 4   | CAS Risk Owner – Carole Payne   | Altogether Safer | Failure to protect child from death or serious harm (where service failure is a factor or issue) | Critical   | Possible       | Actions are taken forward from Serious Case Reviews and reported to the Local Safeguarding Children Board. Lessons learned are fed into training for front line staff and regular staff supervision takes place. Procedures are reviewed on a regular basis.                                     | Net Impact increased | Nationally there has been a statutory change to when Serious Case Reviews are undertaken. This risk is long term.  |
| 5   | CAS Risk Owner – Lesley Jeavons | Altogether Safer | A service failure of Adult Safeguarding leads to death or serious harm to a service user.        | Critical   | Possible       | As the statutory body, the multi-agency Safeguarding Adults Board has a Business Plan in place for taking forward actions to safeguard vulnerable adults including a comprehensive training programme for staff and regular supervision takes place. Procedures are reviewed on a regular basis. | Net Impact Increased | Nationally there has been an increased awareness of potential vulnerabilities relating to adults with care and support needs and this risk is long term. |

## **Appendix 4: List of all Strategic Risks (per Corporate Theme)**

Based on the **Net** risk assessment as at 30 June 2016, the following tables highlight the risks for each Corporate Theme.

### **Corporate Theme – Altogether Better Council**

| <b>Ref</b> | <b>Service</b> | <b>Risk</b>  |
|------------|----------------|--|
| 1          | RES            | Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services.   |
| 2          | RES            | If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.   |
| 3          | RES            | If we were to fail to comply with Central Government's Public Services Network Code of Connection and PCI criteria for our computer applications, this would put some of our core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data. |
| 4          | RES            | Major Interruption to IT Service Delivery  |
| 5          | RED            | The continuation of weak economic conditions, financial austerity and reduced household incomes may see increased pressure on areas of lower housing demand with consequent negative impacts on communities, neighbourhoods and local environments.  |
| 6          | NS             | If Local Authority Schools and other LA services choose not to take Council Services, together with the loss of community buildings and the DCC capital programme going forward, both Technical and Building Services could see a loss of business.  |
| 7          | ACE            | Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO  |
| 8          | ACE            | Risk that the Council does not respond to the Government's changes to Welfare Reform   |
| 9          | ACE            | Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation  |
| 10         | RES            | Serious breach of Health and Safety Legislation  |
| 11         | ACE            | Failure to consider equality implications of decisions on communities leading to legal challenge and delays in implementation  |
| 12         | RES            | Due to the current economic climate and amount of change occurring across the Council, there is potential for increases in fraud and error.  |
| 13         | ACE            | Failure to prepare for, respond to and recover from a disruptive event, leading to a major business interruption in the provision of essential services.   |

### **Altogether Better for Children and Young People**

No significant strategic risks have been identified under this theme.

### **Altogether Greener**

No significant strategic risks have been identified under this theme.

### **Altogether Healthier**

|    | <b>Service</b> | <b>Risk</b>   |
|----|----------------|---|
| 14 | CAS            | Additional operational and financial burden as a result of recent supreme court judgement relating to the threshold applied in determining whether an individual is deprived of their liberty.                    |
| 15 | CAS            | The financial pressures experienced by Residential/Nursing and Domiciliary Care providers as a result of changes to the National Minimum/Living Wage could put the continued operation of some providers at risk. |

### **Altogether Safer**

|    | <b>Service</b> | <b>Risk</b>  |
|----|----------------|--|
| 16 | CAS            | A service failure of Adult Safeguarding leads to death or serious harm to a service user.                            |
| 17 | CAS            | Failure to protect child from death or serious harm (where service failure is a factor or issue)                     |
| 18 | ACE            | Breach of duty under Civil Contingencies Act by failing to prepare for, respond to and recover from a major incident |
| 19 | NS             | Damage to Highways assets as a result of a severe weather event.   |
| 20 | RED            | Serious injury or loss of life due to Safeguarding failure (Transport Service)                                       |

### **Altogether Wealthier**

|    | <b>Service</b> | <b>Risk</b>   |
|----|----------------|---|
| 21 | RED            | Diminishing Capital Resources, continuing depressed land values and cautious growth in the private sector will impact on the ability to deliver major projects and Town initiatives within proposed timescales.   |
| 22 | RED            | There is a potential lack of available match funding within the public sector as a whole in County Durham and the NE LEP area, which could impact upon the ability to fully utilise external funding and in particular the European Structural Funds programme for 2014-2020. |
| 23 | RED            | Future strategic direction of the Council and the County will be adversely impacted if the County Durham Plan is not adopted.   |

## Appendix 5: Performance of Risk Management

### Performance Indicators - Tangible Measures

| Objective: To demonstrate that risks are being effectively managed                        |  |  |   |   |
|---|--|--|---|---|
| KPI   | Measure of Assessment  | Target & (Frequency of Measurement)  | 2015/16 Q4 Actual   | 2016/17 Q1 Actual   |
| All risks are reviewed on a continual cycle   | Service Risk Review completed each quarter   | 100% (Quarterly)   | 100%  | 100%  |
| Risk mitigation is being implemented as planned   | Risk actions on high-scoring risks implemented within target date  | Target N/A (Quarterly)   | No outstanding actions  | No outstanding actions  |
| Risks are being effectively managed   | Number of <b>current</b> risks where Net risk scores have reduced over the quarter                             | Target N/A (Quarterly)   | One<br>(County Durham Plan risk)  | None  |
| To provide informed decision making   | Key decisions reports with a risk assessment   | 100% (Quarterly)   | 100%  |   |
| The delivery of Council services via Significant partnerships is effectively risk managed | Significant partnerships with joint risk management arrangements in place within 6 months of being established | 90% (Quarterly)  | N/A   | N/A   |
| Contributing to effective corporate governance  | Meeting CIPFA governance principles and objectives on risk management  | Confirmed in the annual review of the effectiveness of corporate governance (Annual) | The revised Local Code of Corporate Governance was approved by the Constitution Working Group on 14 March 2016 and will be proceed to Full Council for approval on 13 April 2016. | The revised Local Code of Corporate Governance was approved by Full Council on 13 April 2016. The Draft Annual Governance Statement 2015/16 approved by IPG and RMT, and will proceed to CMT and Audit Committee by 30 June 2016. |

| <b>Objective: To ensure that Officers and Members are appropriately skilled in risk management</b> |   |  |  |                          |
|--|---|--|--|--------------------------|
| <b>KPI</b>   | <b>Measure of Assessment</b>  | <b>Target &amp; (Frequency of Measurement)</b> | <b>2015/16 Q4 Actual</b>   | <b>2016/17 Q1 Actual</b> |
| Appropriate staff are adequately skilled in risk management  | Tier 4 managers attending risk management training course   | Target N/A (Quarterly)                         | 96 officers attended a 2-hour course, 'Managing Business Risks', delivered by Zurich Municipal, the Council's insurer.                         | None                     |
| Appropriate staff are adequately skilled in risk management  | Tier 5 managers attending risk management training course   | Target N/A (Quarterly)                         | See previous   | See previous             |
| Members are adequately skilled in risk management  | New Members attending risk management training course within 6 months of being elected (for co-opted members, within 6 months of being appointed) | 75% (Quarterly)                                | No training provided in this quarter, but a one-hour training course has been developed and approved by the Officer and Member Risk Champions. | None                     |

### Intangible Measures

| <b>Objective: To demonstrate that risks are being effectively managed and adding value</b> |  |                                 |  |
|--|--|---------------------------------|--|
| <b>KPI</b>   | <b>Measure of Assessment</b>   | <b>Frequency of Measurement</b> | <b>2015/16 Q4 Evidence</b>   |
| Good governance maintained   | Gather information on risk management successes, and beneficial outcomes the Council achieve in managing risks | Reported quarterly              | Around 25 significant consultations were completed during 2015/16, enabling the smooth implementation of policy changes and ensuring that services meet the needs of all sections of the community. Examples include home to school transport and in-house day services. |
| Successfully delivered projects  | As above   | As above                        | Implementation of the new car leasing scheme is nearing completion.  |
| Reputation protected   | As above   | As above                        |  |
| Innovative decisions that were risk managed  | As above   | As above                        | Managing the Devolution poll through to its conclusion.  |
| Financial return for the Council   | As above   | As above                        | Protecting properties as part of the programme of works on flood management and community resilience programme   |

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## AUDIT COMMITTEE

29 July 2016



### Annual Review of the System of Internal Audit 2015 / 2016

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## Report of the Chief Internal Auditor and Corporate Fraud Manager

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### Purpose of the Report

1. The purpose of this report is for members to consider and comment on the Annual Review of the System of Internal Audit.

### Background

2. The Accounts and Audit Regulations 2011 require that “a larger relevant body (the Council) must, at least once in each year, conduct a review of the effectiveness of its internal audit” and confirms that the findings of the review must “must be considered as part of the consideration of the system of internal control”.
3. Internal Audit is defined as the means by which the Council assesses its governance and assurance requirements, ensuring that an effective internal control system is in place. Outcomes from the current governance process are evaluated and reported in the Annual Governance Statement.
4. To address the Accounts and Audit Regulations requirement, an assessment of Internal Audit has been carried out and is presented for consideration by those charged with governance.
5. The review concluded that the service is effective and also identified some areas for further improvement.

### Current Arrangements for Internal Audit

6. A dedicated Internal Audit Section forms part of the system of Internal Audit in the Council. The Section is part of the Internal Audit, Risk and Corporate Fraud Division of the Resources Service Grouping. It is led by the Chief Internal Auditor and Corporate Fraud Manager. It has strong links with the Risk, Insurance Claims and Corporate Fraud sections which form the division and works closely with others in the Council tasked with governance, assurance and risk management. Whilst part of a wider Division, the Section retains its own identity as Internal Audit for the Council.

7. The Chief Internal Auditor and Corporate Fraud Manager reports directly to the Corporate Director, Resources but also has direct access to the Chief Executive and the Audit Committee.
8. At the start of 2015/16 the team comprised of 21 approved posts (19.42FTE) plus the Chief Internal Auditor and Corporate Fraud Manager. This team delivered work for the Council as well as work for external clients including Durham Police and Durham and Darlington Fire Authority.
9. The Vision and Strategy for Internal Audit is described in the Annual Internal Audit Plan and Strategy, the Internal Audit Service Terms of Reference (TOR) within the Internal Audit Charter and it outlines the status of the Section within the organisation and defines the principles of how it operates within the Council. The TOR provides appropriate arrangements to ensure that the Section is sufficiently independent and objective and that there is access to all information and people required to discharge its responsibilities. The requirements of the new Public Sector Internal Audit Standards (PSIAS) are reflected in the Internal Audit Charter which was presented to the Audit Committee in May 2016.
10. Arrangements for investigation work are defined in the Council's policies and procedures for Counter Fraud and Confidential Reporting (Whistleblowing) and these are reported to Corporate Management Team and the Audit Committee in the Annual Protecting the Public Purse Report. The Council has also created a Corporate Fraud Team following the transfer of Housing Benefit Fraud employees to the Department for Works and Pensions (DWP) as part of the Single Fraud Investigation Service (SFIS).
11. To examine the effectiveness of the Internal Audit Section for the past year this annual review considered key elements and assessed their contribution to enabling the Section to fulfil its responsibilities. These were:
  - The structure and resourcing level, including qualifications and experience of the audit team.
  - The extent of conformance with the PSIAS in producing quality work.
  - Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis.
  - The overall performance of the Internal Audit team.

## **Resourcing, Qualifications and Experience**

### Resourcing

12. During 2015/16 two employees took Early Retirement as a means to contributing to the Medium Term Financial Plan savings. As a result there were on average 20 audit employees available for audit work during the year.



13. Audit work was actively managed within the resource available and progress toward delivery reviewed regularly. The focus was maintained on clear scoping and coverage for assurance activity; timing of work and availability of clients; and control over the allocation of resources for investigation referrals and in-year requests for support. Alternative means for gaining assurance were assessed and used where appropriate to support audit opinions. Progress and outcomes were regularly reported to Clients, Service Grouping Management Teams, Corporate Management Team and to the Audit Committee.
14. The audit plan was delivered at the year end, with a minimum need to carry forward audit work from 2015/16 into next year except where draft reports still require management responses to enable final reports to be issued or where services have asked for timings and/or scope changes in work. Some work was deferred following review of the audit plan and these have been agreed at the Audit Committee throughout the year.

#### Structure

15. The structure of the section reflects the configuration of the Council at Corporate Director level and allows for close client liaison during the year. The structure is intended to remain the same allowing the opportunity for auditors to continue to develop a depth of knowledge and client relationships. This wherever possible offers continuity to clients who can then regularly deal with the same auditors over a period of time. We consider this approach continues to be successful in building a better understanding of the Council and its business needs and objectives and the Section continues to receive positive feedback from management on this approach. There is a need for employee rotation for development purposes and to maintain objectivity.

#### Audit and Risk Management

16. The Division enables the objectives of Internal Audit to be more clearly articulated through the service planning process and is demonstrated in service plans. Key priorities, options for development and service delivery, service objectives assessments of performance and workforce plans are encapsulated in the annual Internal Audit Plan. Shared intelligence and some joint working has been undertaken to improve the assurance and support services offered to Service Groupings and Schools while maintaining Internal Audit's distinct identity.

#### Training and Experience

17. The training and development within the Division encourages development through both the Institute of Internal Auditors (IIA) qualification and continuing professional development.

18. During the year one auditor has successfully completed their IIA studies and one has qualified with CISA (IT Auditor Qualification). One other employee is continuing with their IIA qualification and one other employees has picked up their Association of Accounting Technician (AAT) training. All other employees hold at least one audit qualification. For Continuous Professional Development all employees had access to and attended events selected from internal and external training events. As such formal quarterly internal CPD sessions are now held for all employees. Individuals keep records of their continuing professional development based on their professional requirements and a central record is held on the Internal Audit software package 'Galileo'. A training plan for the coming year is being constructed based on needs for the service, linked to the service improvement plan and individual appraisals training plans.
19. The following information about qualifications and experience of employees available for audit work demonstrates the experience and qualification mix.

**Experience 2015/16**

| Auditing Experience    | No        | %          | Local Government Auditing | %          |
|------------------------|-----------|------------|---------------------------|------------|
| Up to 1 Year           | 0         | 0          | 0                         | 0          |
| 1 to 2 Years           | 0         | 0          | 0                         | 0          |
| 2 to 5 Years           | 0         | 0          | 0                         | 0          |
| 5 to 10 Years          | 2         | 10         | 2                         | 10         |
| Over 10 Years          | 18        | 90         | 18                        | 90         |
| <b>Total Employees</b> | <b>20</b> | <b>100</b> | <b>20</b>                 | <b>100</b> |

**Qualifications**

|  |           |
|--|-----------|
| Accountants (CCAB)                               | 7         |
| Institute of Internal Auditors                   | 1         |
| Institute of Internal Auditors – Training        | 1         |
| Certified Information System Auditor             | 1         |
| Association of Accounting Technicians            | 9         |
| Association of Accounting Technicians – Training | 1         |
| <b>Total</b>                                     | <b>20</b> |

20. The level of experience of audit employees was increased with those training who completed the IIA certificate course and experience log. The skills level available remains high based on the substantial number of employees with over 10 years' experience and competencies in specific areas.
21. At 31 March 2016 the Section will have no vacancies.

## **Conformance with UK Public Sector Internal Audit Standards (PSIAS)**

22. In April 2013, the Public Sector Internal Audit Standards (PSIAS) became effective. These standards apply to Internal Audit in all parts of the public sector in the UK and are mandatory. The standards are intended to reflect that “a professional, independent and objective internal audit service is one of the key elements of good governance”.
23. The PSIAS introduced a requirement for an external assessment of an organisation’s internal audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.
24. Durham County Council, Newcastle City Council, South Tyneside Council and North Tyneside Council group have established a ‘peer-review’ process that is managed and operated by the constituent authorities. This process addresses the requirement of external assessment by ‘self-assessment with independent external validation’ and this report presents the summary findings of the review carried out on behalf of Durham County Council.
25. The outcome of this assessment is attached as Appendix 2.

## **Ensuring the Effective Prioritisation of Internal Audit Work**

26. Prioritisation of the work of the Section is achieved by the development and delivery of an annual risk based audit plan. This describes the assurance plans for the Section and includes capacity for flexibility to adjust to changing circumstances and for demand led and urgent work if appropriate. The plan is based on a mix of different types of audit and investigation work to ensure that assurance over the Council’s systems of governance, risk management and internal control is obtained from a number of different directions and sources.
27. The section’s methodology for establishing audit priorities is aligned with the Council’s governance and risk management systems. Audit plans are developed through an assessment of risk and assurance needs to support the Council’s overall objectives. The approach is set out in the Internal Audit Plan presented and agreed by the Audit Committee.
28. It is considered that the 2015/16 Internal Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with Senior Management and the Audit Committee. It was based on reasonable estimates of available resources and with management requests and fraud investigations and referrals the plan was delivered. The Internal Audit Plan for 2016/17 was presented to Audit Committee in May 2016.

## Performance Measures

29. Performance Management of the Section and for individual auditors is focused on deployment of auditor time to best effect. This has three main elements related to how much time is spent auditing, completion of audits within set timescales and effectiveness of time deployed. The key deliverable for the Section is the completion of the Internal Audit Plan within the year.
30. Performance and progress are monitored through Key Performance Indicators (KPIs). These are agreed with the Audit Committee as part of the Internal Audit Charter. And allow for benchmarking to assess effectiveness. Comparative figures are used to consider areas for closer review.
31. The key performance measures for the Section over the last 12 months are:

| KPI                                    | Measure of Assessment   | Target | Actual as at 31 March 2016 |
|--|---|--------|----------------------------|
| Planned audits completed               | % of plan achieved.   | 90%    | 97%                        |
| Timeliness of Draft Reports            | % of draft reports issued within 30 Calendar days of end of fieldwork/closure       | 90%    | 97%                        |
| Timeliness of Final Reports            | % of final reports issued within 14 Calendar days of receipt of management response | 95%    | 99%                        |
| Recommendations agreed                 | % of Recommendations made compared with recommendations accepted                    | 95%    | 100%                       |
| Post Audit Customer Surveys            | % of customers scoring at least 3 out of 5  | 100%   | 100% (4.4 average)         |
| Customers providing feedback responses | % of customers returning satisfaction returns                                       | 70%    | 77%                        |

32. For customer satisfaction there has been both a positive response rate and a positive feedback on a number of specific assignments and this is reflected in the results from customer satisfaction questionnaires. A number of other positive comments were received from Service Groupings who commended the flexibility of the audit team was supporting them in addressing emerging issues as well as adapting audit plans to better address Service risks.
33. The issuing of draft reports is an assessment of the timeliness of the audit activity from the completion of a piece of work to the issuing of a draft report for consideration and response. This has improved in 2015/16 with all reports being issued within the set timescales.

34. No concerns have been raised in relation to the application of professional standards for audit work and there have been no formal complaints.

#### Implementation of Recommendations

35. The process for monitoring implementation of recommendations continued to build on improvements last year and there are good levels of engagement from all services across the Council. Working closely with managers allowed for greater understanding of the challenges faced and in ensuring practical recommendations were made and alternative solutions considered in order to address risk.
36. Internal Audit continue to engage with the Council's quarterly reporting process and deliver regular quarterly reports to Service Grouping Management Teams and to Corporate Management Team. This process has helped to ensure that the time spent on the Service is targeted on key issues and that appropriate support and advice is offered at the right time.
37. The Audit Committee are provided with regular updates from the Section during the year and have the opportunity to challenge progress and outcomes. This includes asking senior managers to provide updates as necessary where there is felt of be a significant risk or concern. This process has provided an effective method for obtaining assurance during 2015/2016.

#### **Audit Committee**

38. The system of Internal Audit includes the role of the Audit Committee and in particular its role in the receipt and evaluation of audit reports, both in terms of assurance opinions and in the ensuring that appropriate arrangements are in place for the delivery of an effective service. The arrangements for the Audit Committee remained the same during 2015/2016.
39. Audit Committee requested reports from management in response to issues raised in Audit reports, demonstrating the positive steps being taken by the Committee to seek assurance over actions being taken to respond to concerns.

#### **Summary and key priorities**

40. The Section continues to build on its strengths and enhance its reputation. Service delivery remains a key priority in support of the Council's priorities and to help identify and address any risks to the delivery of corporate objectives. The Section is on track to deliver a comprehensive plan for the year and it is considered that the Section has a sound base for carrying out its audit activities and meeting its objectives to provide audit assurance and advisory support to the Council.

## **Recommendation**

41. Members are asked to note the findings and conclusions of the 2015/2016 review of the effectiveness of the system of Internal Audit contained within this report.
42. Members are asked to note the external assessment results detailed in Appendix 2.

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**Contact: Paul Bradley**

**Tel: 03000 269645**

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## **Appendix 1: Implications**

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### **Finance**

None

### **Staffing**

None

### **Equality and Diversity**

None

### **Accommodation**

None

### **Crime and disorder**

None

### **Human Rights**

None

### **Consultation**

None

### **Procurement**

None

### **Disability Discrimination**

None

### **Legal Implications**

Compliance with Accounts and Audit Regulations 2011

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**DURHAM COUNTY COUNCIL**

**PEER REVIEW OF INTERNAL AUDIT  
AGAINST THE UK PUBLIC SECTOR  
INTERNAL AUDIT STANDARDS**

**CARRIED OUT BY:  
NEWCASTLE CITY COUNCIL**

**REPORT DATE: JULY 2016**

## **1. Introduction**

- 1.1 In April 2013, the Public Sector Internal Audit Standards (PSIAS) became effective. These standards apply to Internal Audit in all parts of the public sector in the UK and are mandatory. The standards are intended to reflect that “a professional, independent and objective internal audit service is one of the key elements of good governance”.
- 1.2 The PSIAS introduced a requirement for an external assessment of an organisation’s internal audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.
- 1.3 Durham County Council, Newcastle City Council, South Tyneside Council and North Tyneside Council have established a ‘peer-review’ process that is managed and operated by the constituent authorities. This process addresses the requirement of external assessment by ‘self-assessment with independent external validation’ and this report presents the summary findings of the review carried out on behalf of Durham County Council.
- 1.4 The assessment was carried out April and May 2016.

## **2. Purpose**

- 2.1 The purpose of the external assessment is to help improve delivery of the Internal Audit Service and establish whether governance requirements relating to provision of the Service are embedded. The assessment should be a supportive process that identifies opportunities for development and enhances the value of the audit service to the authority.

## **3. Approach/Methodology**

### **3.1 Review of Self-Assessment**

The Chief Audit Executive (Chief Internal Auditor and Corporate Fraud Manager) had completed a self-assessment of Durham County Council’s Internal Audit Service, and its compliance with the Standards. The self-assessment was used as the basis for the external assessment, which was then evidenced with reference to a range of internal and published documentation.

### **3.2 Further Evidence Gathering and Testing**

Operational practices were discussed with the Chief Internal Auditor and Corporate Fraud Manager and the Audit and Fraud Managers.

A meeting was held with the Corporate Director, Resources to explore the key expectations of the Internal Audit Service.

To support and further inform the assessment, a sample of internal audit files was randomly selected and compared against the requirements of the Standards and the related Local Government Application Note. The files selected for review were:

- Agency Staff
- Licensing
- Internet Security
- Budgetary Control (Durham Constabulary)

#### **4. Opinion of External Assessment**

- 4.1 This external assessment concludes that Durham County Council's Internal Audit Service **conforms** to the requirements of the Public Sector Internal Audit Standards. There are some areas which require action but these do not significantly impact on the overall opinion.

#### **5. Executive Summary**

- 5.1 It was evident from the self-assessment, review of supporting evidence and on site interview with the Corporate Director, Resources that the Service is valued and is seen as making a positive contribution to the continuous improvement of governance, risk management and internal control.
- 5.2 The Service is viewed as independent, operating to ethical standards and operates with a high level of professionalism and integrity. This is achieved through the planned programme of audit work but also the engagement and involvement of the Service in system development and working groups looking at changing ways of working. This is further enhanced by the Corporate Fraud Team sitting directly under the management of the Chief Internal Auditor and Corporate Fraud Manager.
- 5.3 The Corporate Director, Resources expressed his opinion that the leadership style of the Chief Internal Auditor and Corporate Fraud Manager has made a significant impact in improving both the profile and perceived value of the Service since his appointment. This is supported by the Service winning external business in the recent past.

#### **6. Findings**

- 6.1 The Public Sector Internal Audit Standards include a specific definition of Internal Auditing (expected to be used whenever the function of internal audit is explained, for example in the Audit Charter); a Code of Ethics and eleven specific standards. The standards are divided into attribute standards and performance standards as follows:

##### **Attribute Standards**

- Purpose, authority and responsibility
- Independence and objectivity
- Proficiency and due professional care

- Quality assurance and improvement programme

**Performance Standards**

- Managing the internal audit activity
- Nature of work
- Engagement planning
- Performing the engagement
- Communicating results
- Monitoring progress
- Communicating the acceptance of risks

6.2 The evidence examined as part of the assessment demonstrated that the Internal Audit Service was compliant with the majority of the Standards. A summary of this is detailed below.

Purpose, authority and responsibility

6.3 Internal Audit has an Audit Charter which defines its purpose, authority and responsibility. The Charter was last revised in June 2015 and approved by the Audit Committee.

Independence and Objectivity

6.4 The Chief Audit Executive was appointed by management not the Board. Whilst this is not in accordance with PSIAS it is in line with standard practice within Local Government and in our opinion is an appropriate deviation from the Standard.

6.5 The Standards expect feedback to be sought from the Chair of the Audit Committee and Chief Executive as part of the Chief Audit Executive's performance appraisal. At present, this appraisal is performed by the Corporate Director, Resources who confirmed that informal feedback is provided throughout the year and this informs the appraisal process. In our opinion this is an appropriate approach and in line with standard practice within Local Government.

6.6 All staff within the service are required to complete a Record of Personal Interests, including a statement confirming they understand PSIAS and the requirements of the Code of Ethics and the Seven Principles of Public Life, on an annual basis. However, the declarations completed early in the 2015/16 financial year could not be located at the time of the assessment. The previous declarations, completed by most staff in July / August 2013 (January 2014 for the Corporate Fraud Team), are the latest declarations held.

6.7 The roles of the Audit and Fraud managers within the Service are not periodically rotated due to their experience and knowledge of the areas they oversee although arrangements are in place to rotate staff completing audits. This should be kept under review to ensure there is no actual or perceived conflict of interest which could compromise independence and objectivity.

Proficiency and due professional care

- 6.8 The Chief Audit Executive is professionally qualified (CIPFA) and has over 20 years of experience working in local government. Staff within the Service have a range of financial qualifications and a number of individuals are currently studying. The Service also possess qualifications and experience in the areas of fraud and IT.

Quality assurance and improvement programme

- 6.9 The Chief Audit Executive has a formally documented Quality Assurance and Improvement Programme (QAIP) Framework which was agreed in October 2015. This comprises 2 elements:
- Internal Review  
Incorporating quality assurance checks on samples of completed audits and performance reporting of internal audit activity. The outcomes of these were reported to Audit Committee in June 2015 as part of the Annual Review of the System of Internal Audit.
  - External Review  
The Standards require an external assessment at least once every five years. This peer review assessment satisfies this requirement of the Standard.

Managing the internal audit activity

- 6.10 There is a robust audit planning process in place which involves consultation with key stakeholders including Service Group Management Teams, Corporate Management Team and Audit Committee. The audit plan also demonstrates clear links to the objectives within the Council's corporate plan.
- 6.11 The Chief Audit Executive has overseen the development of the Assurance Map for the Council and has used this to inform audit planning for 2016/17.

Nature of work

- 6.12 The Service's systems and processes for undertaking work are supported by the Audit Manual and the use of the Galileo audit management system which contains all information relevant to individual assignments.
- 6.13 The Chief Audit Executive is also responsible for the Risk Management section within the Council and this enables them to understand the arrangements in place. A Fraud Risk Register is also maintained. Independent peer reviews are undertaken by external sources where appropriate.

Engagement planning

- 6.14 A terms of reference is prepared and agreed for each assignment. The terms of reference identifies key officers, audit objectives, audit scope, approach, reporting arrangements and anticipated timescale for completion.
- 6.15 The planned dates for completion and associated resource budgets are recorded within the Galileo system to enable managers to monitor progress.
- 6.16 When reviewing a sample of personal interest records one auditor declared their mother worked in an area where they subsequently undertook audit work. Whilst it is clear that this did not impact upon the audit and there was no conflict this should have been highlighted as a potential conflict at the outset and risk assessed to confirm independence could not be compromised.

Performing the engagement

- 6.16 Detailed working papers are held on Galileo to support each engagement undertaken. These are completed by the auditor and reviewed by the responsible supervising officer assigned to the engagement.
- 6.17 The quality assurance and improvement programme reviews a sample of engagements. These are supported by sufficient, appropriate evidence and are completed to expected standards.

Communicating results

- 6.18 There are established mechanisms in place for discussing and agreeing audit reports. The final reports contain the internal auditor's opinion, an action plan which prioritises recommendations and management responses to the recommendations made. There is no indication that management unduly influence the outcomes of the audit.
- 6.19 The Chief Audit Executive produces an annual internal audit opinion which concludes on the overall adequacy and effectiveness of the County Council's framework of governance, risk management and control. This includes all expected elements. However, it does not explicitly state that there are no qualifications to the opinion.

Monitoring progress

- 6.20 All recommendations made are recorded within the Galileo audit management system and there are formal follow up processes in place. Recommendations follow up forms part of quarterly monitoring reports to Audit Committee and senior management are provided information in advance of these meetings.

Communicating the acceptance of risks

- 6.21 There are no examples of management accepting a level of risk which is unacceptable to the Council. However, should this be the case the formal

reporting mechanisms to Audit Committee provide an appropriate route to raise such concerns.

**7 Impact of non-conformance and steps to be taken to ensure conformance.**

- 7.1 Any non-conformance with the standards and the impact must be disclosed to senior management and the Audit Committee. The Chief Internal Auditor has agreed that an action plan will be drafted to respond to the areas of non-conformance for consideration by the Audit Committee. (Appendix 1)

**8 Conduct of the External Assessment**

- 8.1 This external assessment of Durham County Council's Internal Audit Service has been conducted in accordance with Standard 1312 (External Assessments) of the Public Sector Internal Audit Standards and the related CIPFA Local Government Application Note.
- 8.2 Such external assessments must be conducted at least once in every five years by a qualified, independent assessor / assessment team from outside the organisation.
- 8.3 The qualified assessor / assessment team must demonstrate competence in two areas – the professional practice of internal auditing, and the external assessment process.
- 8.4 Regarding competence, the Standards state that experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience.
- 8.5 Regarding independence, the independent assessor must not have either a real or an apparent conflict of interest and must not be a part of, or under the control of, the organisation to which the internal audit activity belongs.
- 8.6 I certify that as the external assessor as defined in the PSIAS, I am a qualified Accountant (ACCA Affiliate) and have 18 years of audit experience. For the last 10 years my experience has been gained in a comparable sector (local government). I have no conflict of interest in performing this assessment in respect of Durham County Council's Internal Audit Service – I am not a part of, or under the control of, Durham County Council.

Ian Pattison  
Principal Auditor  
Newcastle City Council  
Civic Centre  
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## Appendix A – Action Plan

| <b>Observation</b>  | <b>Recommendation</b>   | <b>Management response</b>  |
|---|---|---|
| <p>The Record of Personal Interests completed for the 2015/16 audit year could not be located.</p>  | <p>All staff should complete an up to date Record of Personal Interests and these should be retained by the Chief Internal Auditor and Corporate Fraud Manager.</p>   | <p>These had been completed but due to an office move have been destroyed in error. There exercise is completed annually and going forward have been made electronic so this cannot happen again in the future.</p>                                       |
| <p>The roles of the Audit and Fraud managers are not periodically rotated due to their experience and knowledge of the areas they oversee.</p>  | <p>The Chief Internal Auditor and Corporate Fraud Manager should consider rotation of the Audit and Fraud managers. If this is not feasible he should keep the situation under review to ensure there is no actual or perceived conflict of interest which could compromise independence and objectivity.</p> | <p>The situation will be kept under review and with the current reorganisation across the Council responsibilities are likely to change as a result.</p>  |
| <p>When reviewing a sample of personal interest records one auditor declared their mother worked in an area where they subsequently undertook audit work. Whilst it is clear that this did not impact upon the audit and there was no conflict this should have been formally considered when planning the audit.</p> | <p>Where there is any potential conflict of interest a note should be retained on the audit file which confirms this has been risk assessed and management are satisfied independence could not be compromised.</p>   | <p>Agreed that whilst this potential conflict had been reviewed it was not documented on the electronic file held within the Audit System (Galileo). A reminder to employees will be sent to document when reviews of this nature have been assessed.</p> |
| <p>The Internal Audit Annual Opinion does not explicitly state there are no qualifications to the opinion.</p>  | <p>The Chief Internal Auditor and Corporate Fraud Manager should include a statement in his annual opinion which explicitly states there are no qualifications to his opinion.</p>  | <p>Agreed. This has been included in the 2015/16 Internal Audit Annual Opinion to be presented to the Audit Committee on 30 June 2016.</p>  |



## Appendix A – Action Plan

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