



## **Audit Committee**

**Date**        **Wednesday 28 June 2017**  
**Time**        **10.30 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 24 February 2017 (Pages 3 - 10)
3. Declarations of interest, if any
4. Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2017 - Report of the Corporate Director of Resources (Pages 11 - 30)
5. External Audit Progress Report - June 2017 - Report of the External Auditor (Pages 31 - 40)
6. Strategic Risk Management - Progress Report for the quarter ended 31 March 2017 - Report of the Corporate Director of Resources (Pages 41 - 58)
7. Internal Audit Progress Report for the quarter ended 31 March 2017 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 59 - 80)
8. Annual Review of the Effectiveness of Internal Audit 2016/2017 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 81 - 88)
9. Annual Internal Audit Opinion and Internal Audit Report 2016/2017 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 89 - 118)
10. Compliance with International Auditing Standards - Report of the Chair of the Audit Committee (Pages 119 - 126)
11. Draft Annual Governance Statement 2016 / 2017 - Report of the Corporate Director of Resources (Pages 127 - 152)

12. Statement of Accounts for the year ended 31 March 2017 - Report of the Corporate Director of Resources (Pages 153 - 386)
13. Internal Audit Strategy, Charter and Plan 2017/2018 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 387 - 428)
14. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration

**Part B**

**Items during which it is considered the meeting will not be open to the public (consideration of exempt or confidential information)**

15. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information
16. Protecting the Public Purse - Annual Report 2016/17 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 429 - 458)
17. Internal Audit Progress Report for the quarter ended 31 March 2017 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 459 - 472)
18. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration

**Clare Pattinson**

Interim Head of Legal and Democratic Services

County Hall  
Durham  
20 June 2017

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

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

Councillors C Carr, J Carr, M Davinson, J Robinson, S Robinson,  
J Shuttleworth 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 **Friday 24 February 2017 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 O Temple

**Co-opted Members:**

Mr D Beavis and Mr C Robinson

**1 Apologies for Absence**

Apologies for absence were received from Councillors J Robinson and W Stelling

**2 Minutes**

The minutes of the meeting held on 28 November 2016 were confirmed as a correct record.

**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 Agreement of Accounting Policies for Application in the 2016-17 Financial Statements**

The Committee considered an update from the Corporate Director of Resources on the County Council's accounting policies to be applied in the preparation of the 2016/17 Statement of Accounts and to seek confirmation that appropriate policies are being applied (for copy see file of Minutes).

The Finance Manager, Corporate Finance reported that the big change was the dry run of the early closure of the accounts, before the statutory change comes into effect next year. He added that two accounting policies were being amended. The first being increasing the de minimis level for accruing for manual sundry creditor or sundry debtor provisions from £1,000 to £10,000. The second was an amendment to reflect the revised presentation of financial statements as required by the Code of Practice 2016/17.

**Resolved:**

That the recommendations contained within the report be agreed.

**5 Final Accounts Timetable for the Year Ended 31 March 2017**

The Committee considered a report of the Corporate Director of Resources that provided Members with the Final Accounts Timetable for 2016/17 detailing the deadlines for key actions to complete the Statement of Accounts in line with statutory deadlines (for copy see file of Minutes).

The Finance Manager, Corporate Finance advised that there would still be a two stage process but with different deadlines. The accounts would be signed off by the Corporate Director of Resources at the end of May 2017 and would be reported to Audit Committee in July 2017 for final approval.

He went on to inform the Committee that new estimating techniques and new processes were being used and that the critical path for accounting had been reviewed. A group of invested accountants were working very closely with the team to identify any risks. The external auditors, Mazars were also working very closely with the team in preparation for receiving the accounts early. Schools had been identified as an area of risk.

Members were advised that a number of other organisations use the ledger and were aware that it would be shut down early.

Councillor C Carr was delighted to see that schools had been taken into account and congratulated the team for the systems in place to ensure that new deadlines were met.

Councillor Temple found the report very helpful and informative in terms of what needed consideration, and he was assured that systems were in place to deliver on time.

Referring to the timetable, Councillor Davinson said that there may be problems in receiving the declaration forms on time from Members. He asked if they had been informed as to why the forms needed completing earlier. The Finance Manager, Corporate Finance explained that it was important to have a 100% return and his team were working closely with Michael Turnbull in the Committee Services team who had been instrumental in the process.

With reference to the key dates, Mr Robinson asked if there would be a significant impact if any were missed. He was advised that the dates were key and for example, capital expenditure would be shut down on 10 April and they would be strict with that. He added that if the ledger were to keep moving then they would have significant problems.

Mr Robinson was advised that the critical path would be fine-tuned. The Finance Manager, Corporate Finance referred to a practice used at South Tyneside Borough Council whereby reminders were sent a week before the deadline rather than chasing after the deadline.

The Finance Manager, Corporate Finance advised that the bank reconciliation process and service ledgers were carried out on a monthly basis to enable a smooth process. He confirmed that this would not cause any problems with the completion dates, further to a question from Mr Robinson.

The Finance Manager, Corporate Finance informed Members that an update would be given at the next Audit Committee in June 2017.

**Resolved:**

That the report be noted.

**6 Changes to the Code of Practice for Local Authority Accounting in the UK 2016-17**

The Committee considered a report of the Corporate Director of Resources that provided a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (the Code), applied to the 2016/17 accounts (for copy see file of Minutes).

The Finance Manager, Corporate Finance advised that the Highways Network Assets had been deferred to the 2017/18 accounts.

**Resolved:**

That the report be noted.

**7 Decision to opt in to the National Scheme for Auditor Appointments**

The Committee received a report of the Corporate Director of Resources that gave an update on the request to County Council on 22 February to accept Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018 (for copy see file of Minutes).

**Resolved:**

That the report to County Council on 22 February 2017 be noted.

**8 External Audit - Durham County Council Audit Strategy Memorandum Year Ended 31 March 2017**

The Committee received a report from the External Auditor explaining the scope of the audit, the risks identified and the procedures that will be performed to deliver the audit for Durham County Council (for copy see file of Minutes).

Mr M Kirkham, Mazars, advised that the materiality level was defined with the early stages of the audit. The benchmark used to calculate materiality was based on the gross revenue expenditure. 2% was applied to get to the materiality figure.

Mr Beavis asked if 2% was a standard rate and was advised that it was the rate used for Local Authorities that had no significant financial problems and had a level of earmarked reserves, and was on par with similar authorities.

Councillor Temple asked if triviality was also driven by a percentage and if so asked what it was. Mr Kirkham explained that it was 3% of the overall materiality and was at a level at which errors would be reported.

The Chairman thanked Mr Kirkham for providing these assurances.

Mr J Collins, Mazars went on to advise of the significant risks and key judgements. He referred to the earlier close down of accounts and the team were prepared to do this by the end of July 2017. The Value for Money Conclusion showed no significant changes and additional audit work around the MTFP savings was highlighted. Mr Collins added that Mazars had moved to Salvus House, a building owned by Durham County Council. He pointed out that this had no bearing on the independence provided by the team.

The Chairman confirmed that this had been discussed fully with him before the move took place and it had been agreed to report this formally to the Committee

Mr Beavis referred to the mitigation of risks in terms of the management override of control and was surprised to see that personal motivation was not included as a risk. Mr Collins advised that as part of the planning process the team made assessments of the risk of fraud and the incentive of management was taken into account. Mr Kirkham added that they held a view of scepticism but were also mindful of the financial pressures faced and the risk this could entail.

**Resolved:**

That the report be noted.

**9 External Audit - Durham Pension Fund Audit Strategy Memorandum Year Ended 31 March 2017**

The Committee received a report from the External Auditor explaining the scope of the audit, the risks identified and the procedures that will be performed to deliver the audit for Durham County Council Pension Fund (for copy see file of Minutes).

Mr Kirkham, Mazars introduced the report and advised that the materiality benchmark was benefits payable and 10% was applied.

Ms S Liddle, Mazars advised of the significant risks and advised that Committee would receive an opinion at the July 2017 meeting. The final certificate would be issued on receipt of the Annual Pension Fund report.

**Resolved:**

That the report be noted.

**10 External Audit Progress Report - February 2017**

The Committee received a report from the External Auditor that gave an update on progress on the External Audit report for Durham County Council (for copy see file of Minutes).

**Resolved:**

That the report be noted.

**11 External Audit Certification of Claims and Returns**

The Committee received a report from the External Auditor regarding grant certification for 2015/16 (for copy see file of Minutes).

Mr Collins highlighted the area of grant certification work that has been completed for Housing Benefit Subsidy. He advised that the number of errors were reducing and any found were reported back to the appropriate department.

**Resolved:**

That the report be noted.

**12 Corporate Governance Review 2016/2017 - Key Dates**

The Committee received a report of the Corporate Director, Resources that informed of the key dates for the corporate governance review for the 2016/17 financial year (for copy see file of Minutes).

Members asked that 'internal' be added to the timetable regarding the annual audit opinion being reported to Committee in June 2017, to avoid any confusion with the external auditor's opinion.

**Resolved:**

That the report be noted.

**13 Revised Risk Management Policy and Strategy**

The Committee considered a report of the Corporate Director of Resources that sought approval of the revised Risk Management Policy & Strategy (for copy see file of Minutes).

**Resolved:**

That the revised Risk Management Policy and Strategy be approved.

**14 Strategic Risk Management - Progress Report for the Quarter Ended 31 December 2016**

The Committee considered a report of the Corporate Director, Resources which highlighted the strategic risks facing the Council and that gave an insight into the work carried out by the Corporate Risk Management Group during (for copy see file of Minutes).

The Risk, Insurance and Governance Manager informed the Committee that there were now 21 strategic risks with the removal of the risk 'additional burden as a result of recent change to the deprivation of liberty threshold'.

Councillor Temple expressed concern that these reports had never signalled the teaching assistant's dispute as this was a big risk in terms of education and finance. The Risk, Insurance and Governance Manager said that the report highlighted emerging risks and advised that management had taken the decision that the teaching assistant's dispute was being managed. The Corporate Director of Resources explained that the risk was being mitigated.

Councillor Temple expressed further concerns as to whether risks were objective or being managed in terms of political management. The Chairman reminded Members that the Committee does not have any political ties.

Councillor C Carr said that he expected managers to advise the Committee of the risks and how they were being dealt with.

Councillor Temple advised that he would put his concerns in writing to the Corporate Director of Resources.

Mr Robinson referred to the Key Risks Schedule and suggested that it would be helpful to have a date of what was required and by when. He understood the difficulty of having to work to Government criteria, especially when it kept changing, but asked that this be reviewed.

**Resolved:**

That the report provides assurance that strategic risks were being effectively managed within the risk management framework across the Council.

**15 Emergent Internal Audit Plan 2017/2018**

The Committee considered a Report of Chief Internal Auditor and Corporate Fraud Manager that provided details of the emergent Internal Audit Plan for 2017/2018 and gave an update on the development of the 2017/2018 Internal Audit Plan (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager advised that the plan was aligned to the current service structure and fully supported the transformation programme.

**Resolved:**

That comments on the proposed direction and process for the development of the emergent Internal Audit Plan be noted and that the plan would be reported to the meeting on 28 June for formal approval.

## **16 Internal Audit Progress Report for the quarter ended 31 December 2016**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed members of the work carried out by Internal Audit during the period April to June 2016 ( for copy see file of Minutes).

The Audit and Fraud Manager highlighted the movements in the plan, removed audits and unplanned reviews added to the plan. The Committee were advised that 76% of the total plan had been delivered, exceeding the target of 68%. There had been 6 audits finalised in the quarter that had been given a limited assurance opinion. With reference to the survey response rate an average score of 4.5 out of 5 was given from service groupings. The summary of progress on the actions due were highlighted and members were informed that all performance indicators had been achieved.

With reference to the surveys, Mr Beavis commented how low the return was from schools. The Chief Internal Auditor and Corporate Fraud Manager said that the response rate had improved significantly however it was noted that there was room for improvement.

### **Resolved:**

- (i) That the amendments made to the 2016/2017 Annual Audit Plan, be noted.
- (ii) That the work undertaken by Internal Audit during the period ending 31 December 2016 and the assurance on the control environment provided, be noted.
- (iii) That the performance of the Internal Audit Service during the period, be noted.
- (iv) That the progress made by service managers in responding to the work of Internal Audit, be noted.

## **17 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.

## **18 Internal Audit Progress Report for the quarter ended 31 December 2016**

The Committee considered Appendices 6 and 7 of the report of the Chief Internal Auditor and Corporate Fraud Manager which detailed the actions agreed by managers in response to internal audit recommendations that were outstanding (for copy see file of Minutes).

Members were advised that there were six audits finalised in the quarter that had been issued with a limited assurance opinion.

The Assessments and Awards Manager and the Head of Planning and Assets gave assurances to Members about the work being carried out following a recent audits.

**Resolved:**

That the report be noted.

**19 Organised Crime Procurement Pilot**

The Committee received a report of Chief Internal Auditor and Corporate Fraud Manager that presented the final report produced by the Home Office on the threat serious and organised crime poses to publicly procured services in Local Authorities (LAs) and how to respond to that threat, following the Council's participation in an organised crime procurement pilot (for copy see file of Minutes).

**Resolved:**

That the report be noted.

**AUDIT COMMITTEE**

28 June 2017



**Consideration of 'Going Concern Status'  
for the Statement of Accounts for the year  
ended 31 March 2017**

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**John Hewitt, Corporate Director of Resources**

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**Purpose of the Report**

1. Each year, Durham County Council is required to assess whether it should be considered as a 'going concern' organisation, and whether the Council's Annual Accounts should be prepared on that basis. This report considers the Council's status as a going concern and asks Members to agree this.

**Background**

2. The general principles adopted in compiling the Statement of Accounts are in accordance with the 'Code of Practice on Local Authority Accounting 2016/17' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code defines proper accounting practices for local authorities in England, Wales, Scotland and Northern Ireland.
3. The Code requires that a local authority's Statement of Accounts is prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the authority will continue in operational existence for the foreseeable future. This means that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to curtail significantly the scale of the operation.
4. An inability to apply the going concern concept can have a fundamental impact on the financial statements.
5. In reality, it would be highly unusual for a local authority to have a going concern problem. There may be cases where part of an authority's operations cease to be viable or affordable. However, this will not give rise to a going concern issue for the authority given that the impact would be restricted to only that part of the operation.
6. Transfers of services under combinations of public sector bodies similarly do not negate the presumption of going concern.

## Key Issues

7. The assumption that a local authority's services will continue to operate for the foreseeable future is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are therefore that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.
8. Local Authorities derive their powers from statute and their financing and accounting framework is closely monitored by primary and secondary legislation. It is a fundamental concept of local authority accounting that wherever accounting principles and legislative requirements are in conflict, the legislative requirements then apply.
9. An organisation must consider its financial performance to assess its ability to continue as a going concern. This assessment should cover historical, current and future performance.

## Historical Position

10. The assets and liabilities of the seven former District Councils were transferred to the new Unitary County Council on 1 April 2009. The following table shows the Net Assets of the Council at each year end up to 31 March 2017:

<b>Year ended 31 March</b>	<b>Net Assets £m</b>
2009	1,240.742
2010	900.094
2011	856.994
2012	571.779
2013	457.004
2014	682.773
2015	466.547
2016	568.129
2017	385.270

11. The External Auditor also provides a 'Value For Money' conclusion at each year end which gives their opinion on whether the Council has put arrangements in place for securing economy, efficiency and effectiveness in its use of resources. The Council's arrangements are considered against one overall criterion which is made up of three sub criteria.

12. The overall criterion set out by the National Audit Office (NAO) is 'in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people'. The three sub-criteria are:
  - (a) Informed decision-making;
  - (b) Sustainable resource deployment; and
  - (c) Working with partners and other third parties.
13. The External Auditors having completed their assessment, and having carried out a 'reality check', concluded that their initial risk assessment remained appropriate and were confident in their conclusion that the Council has adequate arrangements in place for each criterion.
14. The External Auditors stated that 'overall the Council continues to respond well to the financial and other pressures it has faced, at a time of unprecedented reductions in public sector spending, and continues to have a strong record of delivering savings and keeping within budget'.
15. Full details can be found in the last Audit Completion Report for 2015/16 which was produced on 30 September 2016 and reported to the Audit Committee.

### **Current Position**

16. The Council held general reserves of £23.0 million at 31 March 2017 and reserves earmarked for specific future purposes, including those held for schools of £233.5 million.
17. The Net Assets of the Council at 31 March 2017 amounted to £385.3 million, a decrease of £182.9 million, which is mainly due to the increase in its Pensions Liability for employees, for which statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

### **Future Plans**

18. The Council approved its budget for 2017/18 and Medium Term Financial Plan to 2019/20 in February 2017.

### **Medium Term Financial Plan (MTFP) – 2017/18 to 2019/20**

19. The financial outlook for the Council and the whole of local government

remains extremely challenging. The Council has faced government funding reductions since 2010/11 and it has been confirmed that they will continue until at least 2019/20. It is possible however that reductions could continue beyond this point.

20. The Chancellor of the Exchequer's 8 March 2017 Budget reported a further deterioration in the public finances. The national finances continue to face significant uncertainty. The performance of the economy is not meeting expectations which has resulted in the previous government dropping the policy of achieving a surplus in the national finances. This was replaced with an aspiration to eradicate the deficit by the end of the next parliament.
21. It is apparent therefore that the financial landscape for local authorities will continue to be extremely challenging until at least 2019/20, but possibly beyond, resulting in the longest period of austerity in modern times. By 31 March 2017, the Council will have delivered savings of £185.7 million since 2011. Based upon the provisional Local Government Finance Settlement, it is forecast that the savings required for the MTFP (7) period 2017/18 to 2019/20 will be £59.6 million resulting in total savings over the 2011/12 to 2019/20 period of £245.3 million.
22. The Final Local Government Finance Settlement confirmed a £21.1 million reduction in Revenue Support Grant (RSG) for the Council in 2017/18. This reduction is in line with the four year settlement the Council has secured by submitting an Efficiency Plan to government. The four year settlement has confirmed additional RSG reductions in both 2018/19 and 2019/20.
23. In addition to the reductions in Revenue Support Grant, the Council will face additional reductions over the MTFP (7) period in specific grants in relation to New Homes Bonus, Public Health, Education Services and Benefit Administration. In addition, updated forecasts of demographic and other inflationary pressures arising from the National Living Wage have had to be accommodated within the MTFP (7) forecasts.
24. The delivery of additional savings of £59.6 million across the next three years will be extremely challenging as the Council strives to protect front line services wherever possible.
25. The forecasted savings required to balance the 2017/18 budget are £36 million. The 2017/18 savings requirement includes replacing the use of £4.2 million of one off funds (Collection Fund surplus £2.6 million and Budget Support Reserve £1.6 million) utilised in 2016/17 to balance the budget. Savings plans amount to £23.4 million with the £12.6 million savings shortfall being covered by the utilisation of the Budget Support Reserve (BSR). The utilisation of the BSR will enable the Council to smooth reductions in expenditure and to help to reduce the impact of significant government funding cuts on key services.

26. The Council's MTFP strategy for the last five years has been to protect front line services as far as possible and the 2017/18 proposals are in line with this strategy. This strategy is becoming increasingly difficult to maintain over time with the Council's Transformation Programme being developed to ensure all options are exhausted to ensure front line services can be protected wherever possible. It is still likely, however, that front line services will become increasingly impacted over the next three years as the year on year impact of the scale of the cuts impacts on the resources the Council has available to provide key services. This report summarises how the main proposals are in line with the Council's overall strategy and have been shaped by residents' and stakeholders' views with a high level analysis of the equalities impact.
27. Detailed savings proposals were only included for 2017/18.
28. Despite this very challenging financial period through the scale and sustained level of Government spending cuts and the impact on the Council's finances, this report includes some very positive outcomes for the people of County Durham including:
  - (a) Continued support to protect working age households in receipt of low incomes through the continuation of the existing Council Tax Reduction Scheme where they will be entitled to up to 100% relief against their council tax payments;
  - (b) Ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people through the services we provide;
  - (c) Continue 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;
  - (d) Significant investment in capital expenditure in line with the Council's highest priority of regeneration in order to protect existing jobs and create as many new jobs as possible including investing in our town centres, industrial estates and infrastructure including new transport schemes and maintenance of our highways and pavements.
29. The Council's MTFP (7) is aligned to the Council Plan, which sets out the Council's strategic service priorities. The MTFP provides a comprehensive resource envelope to allow the Council to translate the Council Plan into a financial framework that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes.

30. Looking back to MTFP (1) the following drivers for the Council's financial strategy were agreed by Cabinet on 28 June 2010, which still underpin the strategy in MTFP (7):-
- (a) To set a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in council tax;
  - (b) To fund agreed priorities, ensuring that service and financial planning is fully aligned with the Council Plan;
  - (c) To deliver a programme of planned service reviews designed to keep reductions to front line service to a minimum;
  - (d) To strengthen the Council's financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery outcomes;
  - (e) To ensure the Council can continue to demonstrate value for money in the delivery of its priorities.
31. The strategy the Council has deployed to date has been to prioritise savings from management, support services, efficiencies and, where possible, increased income from fees and charges to minimise the impact of reductions on frontline services as far as possible.
32. Throughout the period covered by the MTFP (1) 2011/12 through to MTFP (7) 2019/20, the cumulative savings required has risen from an originally forecast £123 million to a revised and updated forecast £245.3 million. It is therefore clear that it will become increasingly difficult to protect frontline services going forward.
33. To date the Council has implemented the agreed strategy very effectively:-
- (a) £185.7 million of savings will have been delivered by 31 March 2017;
  - (b) in the vast majority of cases, savings have been delivered on time and in some areas ahead of time. This is critically important, as non-delivery would place additional pressure upon the revenue budget;
  - (c) whilst income from fees and charges has been increased, this has not resulted in the Council having the highest levels of fees and charges in the region, which is important given the socio-economic make-up of the county;
  - (d) it was originally forecast that there would be a reduction in posts of 1,950 by the end of 2014/15 with the actual figure being broadly in line with this forecast. Looking ahead with the

significant savings requirements over the next two years, the Council is expecting to see further reductions in the workforce. For 2017/18 the forecast is for a further reduction of 302 posts including the deletion of 65 vacant posts. It is currently forecast that by the end of 2017/18 the reduction in post numbers will be 2,674, of which 663 will have been via the deletion of vacant posts;

- (e) following the abolition of the national Council Tax Benefit system in 2013, and despite government funding reductions for the Local Council Tax Reduction Scheme, the Council has been able to maintain a scheme that protects all working age households in line with the support they would have previously received under the Council Tax Benefit system. This is a significant achievement and the Council is one of small number of Councils that have been able to maintain this support at a time when working age households are suffering from continued impacts of the government's welfare reforms. This has only been possible through prudent financial planning;
  - (f) the Council has also been able to protect those services prioritised by the public such as winter maintenance whilst also continuing to support a fully funded capital programme.
34. The benefits of delivering savings early if practical to do so, cannot be over emphasised. The utilisation of reserves has been essential in ensuring the smooth delivery of the savings targets and enabled a managed implementation of proposals across financial years.
35. In general, the Council has been quite accurate in forecasting the level of savings required, which has allowed the development of strong plans and has enabled the Council to robustly manage the implementation and delivery on time, including meeting extensive consultation and communication requirements. This has put the Council in as strong a position as possible to meet the ongoing financial challenges across this medium term financial plan and beyond, where savings proposals are becoming more complex and difficult to deliver and will inevitably require increased utilisation of reserves to offset any delays and 'smooth in' reductions across financial years.
36. It is clear that austerity will continue over the three year period of MTFP (7) resulting in at least nine years of significant funding reductions and the need to identify significant annual savings to balance the budget. The fact that each year's reduction is on top of those of previous years leads to a forecasted, cumulative total of £245.3 million of required savings across the period 2011/12 up to 2019/20. This means that the Council continues to face a very considerable financial challenge to balance budgets whilst providing a good level of service.

37. In addition, Local Government generally is facing more uncertainty about future funding and absorbing more financial risks from Central Government.
38. Increased risk is arising from several sources:-
- (a) Under the Local Council Tax Reduction Scheme, previous national risk arising from any increased numbers of benefits claimants has been transferred to Local Authorities since 2013/14. The risk is greater for authorities like Durham that serve relatively more deprived areas and have relatively weaker economic performance than the national average;
  - (b) Business Rates Retention was introduced in 2013/14 to incentivise local authorities to focus on economic regeneration by being able to retain 49% of business rates raised locally. Economic regeneration has always been the top priority for the Council. Unfortunately the practical consequences of these changes shifts risks once managed nationally to local authorities should there be a downturn in the local economy and local business rate yield reduces. In addition, the Council also now carries a share in the risk arising from successful rating appeals against the rateable value assigned to a business by the Valuation Office, part of HM Revenues and Customs which can go back many years and pre-date the introduction of Business Rates Retention;
  - (c) The Chancellor of the Exchequer's 2015 Autumn Statement confirmed the government's aspiration that local authorities will be able to retain 100% of business rates collected locally by the end of this parliament. The transfer of 100% of business rates will result in local government as a whole receiving more income than would be required. On this basis, the government has confirmed that additional service responsibilities will be transferred to local government. A detailed exercise is presently underway to determine how the move to 100% business rate retention will work with consultations expected over the coming twelve months. It is forecast that 100% business rate retention will be introduced in 2020/21;
  - (d) The government's ongoing Welfare Reform changes carry increased financial risk to the Council in areas such as the Benefits Service, homelessness and housing. Similarly, Council Tax may become more difficult to collect, creating increased financial pressure;
  - (e) Normal risks such as future price and pay inflation beyond MTFP forecasts and demographic pressures will still apply and are not currently recognised in government funding allocations, increasing the real terms cuts required to set a balanced budget;

- (f) Future settlements are dependent upon the national finances. Uncertainties in relation to Brexit could impact upon the national finances and as such impact upon future settlements for local government.
39. Since clarity has been received in relation to RSG settlements up to 2019/20, there can be some confidence in the savings targets over the next three years. On that basis detailed savings plans have been developed for 2017/18 with work ongoing to develop savings plans for 2018/19 and 2019/20.
40. After taking into account base budget pressures, additional investment and savings, the Council's Net Budget Requirement for 2017/18 is £387.594 million. The financing of the Net Budget Requirement is detailed below.

#### **Financing of the 2017/18 Budget**

<b>Funding Stream</b>	<b>Amount</b>
	£m
Revenue Support Grant	56.000
Business Rates	48.739
Business Rates – Top Up Grant	67.625
Collection Fund Surplus	3.000
Council Tax	195.706
New Homes Bonus	8.882
New Homes Bonus Reimbursement	0.267
Education Services Grant	1.500
Section 31 Grant	5.875
<b>TOTAL</b>	<b>387.594</b>

41. The Government has confirmed that the maximum the Council can increase council tax by is 1.99% without approval from a majority of council tax payers to increase it higher after a public referendum. The Government has also confirmed the option to increase council tax by an additional 6% for an adult social care precept over the next three years. The Council has the option to accelerate these increases and increase Council tax by up to 3% in both 2017/18 and 2018/19. The maximum increase that can be applied in 2019/20 is 2% and the adult social care precept can increase by no more than 6% over the 2017/18 to 2019/20 period. Although an increase of 3% in both 2017/18 and 2018/19 would generate additional council tax in each year, an increase of 2% in each of the three years would result in the council receiving a forecast £0.1million more council tax by 2019/20. On that basis a policy of 2% annual increases each would result in an overall lower savings target across MTFP (7) of £0.1 million.
42. After considering the impact upon the Council's budget and, importantly upon council tax payers, the Council approved a 1.99% Council Tax increase in the Council's Band D Council Tax in 2017/18 which is below the 2% Referendum Limit. In addition the Council approved a 2% increase to the Adult Social Care precept. The total increase will generate additional income of £7.5 million. The additional income will enable the Council to protect front line services whilst also covering significant base budget pressures such as the additional costs associated with the introduction of the national living wage.
43. The 2017/18 Council Tax Base which is the figure utilised to calculate Council Tax income forecasts, was approved by Cabinet on 16 November 2016 as 135,620.9 Band D equivalent properties. Based upon the Council's track record in collecting Council Tax from Council Tax payers, the tax base for Council Tax setting and income generation processes will continue to be based upon a 98.5% collection rate in the long run.

### **Capital Funding**

44. The capital budget was last approved by Cabinet on 16 November 2016. County Council on 22 February 2017 approved the Capital Budget and financing for the period 2016/17 to 2019/20. Details of the current Capital Programme can be found at Appendix 8 of the County Council report.
45. Service Groupings developed capital bid submissions during the summer 2016 alongside the development of revenue MTFP (7) proposals. Bids were submitted in the main for 2018/19 to maintain the two year rolling programme approach to the capital budget. Bids were also submitted for 2017/18 which were deemed to be priority. The Capital Member Officer Working Group (MOWG) had considered the Capital bid submissions taking the following into account:-

- (a) Service Grouping assessment of priority;
  - (b) Affordability based upon the availability of capital financing. This process takes into account the impact of borrowing upon the revenue budget;
  - (c) Whether schemes could be self-financing i.e. capital investment would generate either revenue savings or additional income to repay the borrowing costs to fund the schemes.
46. Whilst considering Capital bid proposals, MOWG have continued to recognise the benefits of committing to a longer term capital programme to aid effective planning and programming of investment. At the same time, MOWG also recognised the need for caution in committing the Council to high levels of prudential borrowing at this stage for future years.
47. Specific capital programmes were included in MTFP (6) financed from assumed allocations of capital grants. These allocations have now been confirmed and were in line with forecasts built into MTFP (6).
48. In addition, the Council has included indicative grants for 2018/19 in developing the MTFP (7) Capital Programme. If the actual allocations for 2018/19 vary from the forecast then the capital budget may need to be adjusted accordingly.
49. Capital receipts are generated from asset sales and from VAT shelter arrangements in relation to previous council housing stock transfers within the former district councils.
50. In the 2015 Autumn Statement the Chancellor of the Exchequer announced that local authorities would be given flexibility under certain circumstances to utilise capital receipts to finance one off revenue costs associated with service transformation and reform. Additional details were included in the local government finance settlement in this regard.
51. The government has identified that revenue expenditure would qualify to be financed from capital receipts in the following circumstances:-
- (a) Qualifying expenditure is expenditure on any project designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years;
  - (b) The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's, or several authorities', and/or to another public sector body's net current expenditure;

- (c) Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility;
  - (d) The Secretary of State believes that individual local authorities or groups of authorities are best placed to decide which projects will be most effective for their areas;
  - (e) Set up and implementation costs of any new processes or arrangements can be counted as qualifying expenditure. However, the ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.
52. The government believes that it is important that individual authorities demonstrate the highest standard of accountability and transparency. The draft guidance recommends that each authority should prepare a strategy that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full Council or the equivalent. This strategy can be included as part of the annual budget documentation and approved by full Council or the equivalent at the same time as the annual budget.
53. At this stage it is not considered that there are a large range of opportunities for the Council to utilise this new flexibility. Careful consideration also needs to be given to the other options of funding such expenditure as identified above e.g. from contingencies or from reserves. Notwithstanding this it is recognised that it would not be unreasonable for the Council to consider utilising this new flexibility to finance severance costs associated with the MTFP process.
54. On that basis to ensure that the Council has this option available it will be recommended that as part of the Council's overall approach to efficiency that it is noted at this stage that capital receipts could be utilised to finance severance costs.
55. If this option is adopted there will be a natural impact upon the financing of the capital programme. In former years the Council has set a target of £10 million of capital receipts income to support the capital programme. A target of £10 million is in place for 2017/18 which was included in MTFP (6). It is also recommended at this stage that a £10 million sum is included in the 2018/19 capital financing budget. It is recognised however that it is becoming more difficult to achieve the £10 million target as the availability of land for sale reduces. This position will be reviewed during development of MTFP (8).
56. If a decision is made and agreed by Cabinet in the future to utilise capital receipts to finance severance costs then the impact upon the capital financing budget will need to be considered.

57. During 2017/18 there may be other opportunities that manifest for the Council to utilise this new capital receipts flexibility to finance service transformation and reform one off costs. If there is a business case in this regard Cabinet approval will be sought and the case in question included in a formal Efficiency Strategy.
58. The Council continues to recognise the importance of investing in capital infrastructure and the need to boost the local economy. With this in mind following one off revenue funding streams were approved to support the capital programme:
- (a) Collection Fund Surplus – £3 million;
  - (b) Newcastle Airport Dividend – as part of the refinancing of the airport the Council received a £2.64 million dividend from the shareholding in the airport.
59. In previous years an additional £2 million of revenue was provided in the budget to finance Prudential Borrowing to continue the support for new projects within the Capital Programme. High cash balances however have delayed the need for the Council to borrow to the levels and forecast and interest rates continue to be at historically low levels. On that basis it is forecast that the current budget available for prudential borrowing will be able to absorb the costs associated with the capital bids. A proportion of this budget is being utilised to support the leasing costs of replacement vehicles and plant.
60. A comprehensive 2017/18 capital programme was approved as part of MTFP (6) in line with the Council policy of developing a two year rolling capital programme. The need to continue to invest in capital infrastructure is seen as an essential means of maintaining and regenerating the local economy whilst supporting job creation. Additional investment will maintain and improve infrastructure across the County, help retain existing jobs, create new jobs and ensure the performance of key Council services are maintained and improved.
61. After considering all factors, including the availability of capital finance, the additional schemes were approved for inclusion in the MTFP (7) Capital Programme as shown in the following table.

<b>Service Grouping</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£m</b>	<b>£m</b>
CYPS	1.750	23.882
REAL	2.735	35.836
Resources	0	1.774
Transformation & Partnerships	0	2.100
<b>Total</b>	<b>4.485</b>	<b>53.592</b>

62. After considering all relevant factors above, and the additional schemes the revised capital budget and its financing will be as follows:-

#### **New MTFP (7) Capital Programme**

<b>Service Grouping</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>Total</b>
	£m	£m	£m	£m	£m
Adults and Health	0.896	0.526	0.000	0.000	1.422
CYPS	24.901	12.007	23.882	0.000	60.790
REAL	78.811	83.609	62.978	10.832	236.230
Resources	4.179	10.435	1.774	0.000	16.388
Transformation & P.	4.042	3.167	2.100	0.000	9.309
<b>TOTAL</b>	<b>112.829</b>	<b>109.744</b>	<b>90.734</b>	<b>10.832</b>	<b>324.139</b>
<b>Financed by</b>					
Grants and Contributions	37.544	44.726	35.588	0.100	117.958
Revenue and Reserves	2.040	4.935	1.155	0.000	8.130
Capital Receipts	8.728	17.700	18.568	0.000	44.996
Borrowing	64.517	42.383	35.423	10.732	153.055
<b>TOTAL</b>	<b>112.829</b>	<b>109.744</b>	<b>90.734</b>	<b>10.832</b>	<b>324.139</b>

63. The council has been able to set a balanced budget for 2017/18 and has a clear plan in place to continue to deliver local services up to 2020. Based on this, it is clear that the County Council is a going concern.

#### **Financial Reserves**

64. Reserves are held:-
- (a) As a working balance to help cushion the impact of any uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the General Reserves;
  - (b) As a contingency to cushion the impact of any unexpected events or emergencies e.g. flooding and other exceptional winter weather – this also forms part of General Reserves;
  - (c) As a means of building up funds, 'earmarked' reserves to meet known or predicted future liabilities.
65. The Council's current reserves policy is to:-
- (a) Set aside sufficient sums in Earmarked Reserves as is considered prudent. The Corporate Director Resources should continue to be authorised to establish such reserves as required, to review them for both adequacy and purpose on a regular basis and then reporting to the Cabinet Portfolio Member for Finance and to Cabinet;

- (b) Aim to maintain General Reserves in the medium term of between 5% and 7.5% of the Net Budget Requirement which in cash terms equates to up to £31 million.
66. Each earmarked reserve, with the exception of the Schools' reserve, is reviewed on an annual basis. The Schools' reserve is the responsibility of individual schools with balances at the year end which make up the total reserve.
67. A Local Authority Accounting Panel Bulletin published in November 2008 (LAAP77) makes a number of recommendations relating to the determination and the adequacy of Local Authority Reserves. The guidance contained in the Bulletin "represents good financial management and should be followed as a matter of course".
68. This bulletin highlights a range of factors, in addition to cash flow requirements that Councils should consider. These include the treatment of inflation, the treatment of demand led pressures, efficiency savings, partnerships and the general financial climate, including the impact on investment income. The bulletin also refers to reserves being deployed to fund recurring expenditure and indicates that this is not a long-term option. If Members were to choose to use General Reserves as part of the budget process appropriate action would need to be factored into the MTFP to ensure that this would be addressed over time so that the base budget is not reliant on a continued contribution from General Reserves.
69. The forecast balance on all reserves is reported to Cabinet every quarter as part of the Forecast of Outturn reports and Cabinet received the latest report on 15 March 2017. A range of reserves are being utilised to support MTFP (7). Details are as follows:-
- (a) **MTFP Redundancy and ER/VR Reserve** – this reserve was originally created in 2010 with a balance of £26.9 million. The reserve was replenished during 2013/14 when a further £15 million was contributed to the reserve and was replenished again in 2015/16 when a further £10 million was contributed. At the end of 2016/17 the balance on the reserve is £12.8 million. Having this reserve in place will be a major factor in managing the savings realisation process effectively across the MTFP (7) period. This reserve will continue to be closely monitored;
- (b) **Budget Support Reserve (BSR)** – It is forecast that an additional £12.622million of the Budget Support Reserve will be utilised to support the MTFP in 2017/18. The residual balance of £30 million will be available to support the budget in later years and the level of this reserve will be reviewed through the development of MTFP(8);

- (c) **Cash Limit Reserves** – Service Groupings continue to utilise Cash Limit Reserves to enable re-profiling of when MTFP savings are realised. A sum of £0.8 million is to be utilised in 2017/18.
70. Between the period 2011/12 to 2017/18 it is forecast that over £70 million of reserves, including the BSR, will have been utilised to support the MTFP. It is recommended at this stage that the current Reserve Policy of maintaining the General Reserve of between 5% and 7.5% of the Net Budget Requirement is retained. This will result in a General Reserve range of up to £29 million.
71. Based on the level of reserves held, the County Council has demonstrated robust financial management that underpins its status as a going concern.

### **Risk**

72. The Council has previously recognised that a wide range of financial risks need to be managed and mitigated across the medium term. The risks faced are exacerbated by the localism of business rates and the localisation of council tax support. All risks will be assessed continually throughout the MTFP (7) period. Some of the key risks identified include:
- (a) Ensure the achievement of a balanced budget and financial position across the MTFP (7) period;
  - (b) Ensure savings plans are risk assessed across a range of factors e.g. impact upon customers, stakeholders, partners and employees;
  - (c) Government funding reductions are based upon the Local Government Finance Settlement. A four year finance settlement has been secured and should provide certainty in relation to future RSG reductions. There is still a risk however that a deterioration in the public finances could result in further savings targets for local government in excess of those agreed to date;
  - (d) The localisation of council tax support passed the risk for any increase in council tax benefit claimants onto the Council. Activity in this area will need to be monitored carefully with medium term projections developed in relation to estimated volume of claimant numbers;
  - (e) The Council retains 49% of all business rates collected locally but is also responsible for settling all rating appeals including any liability prior to 31 March 2013. Increasing business rate reliefs and appeals settlements continue to make this income

stream highly volatile and will require close monitoring to fully understand the implications upon MTFP (7);

- (f) The impact of future increases in inflationary factors such as the national living wage will need to be closely monitored;
  - (g) The council continues to experience increases in demand for social care services. Although some allowance is made for demand increases across the MTFP(7) period this issue will need to be closely monitored;
  - (h) The possible impact of Brexit which could affect future government finance settlements, inflation and European funding.
73. Based on the above there are no risks which would indicate that the County Council is not a going concern.

### **Conclusion**

74. When approving the accounts, the Audit Committee members being those charged with governance for the Council will need to consider which of the following three basic scenarios is the most appropriate:
- (a) The body is clearly a going concern and it is appropriate for the accounts to be prepared on the going concern basis;
  - (b) The body is a going concern but there are uncertainties regarding future issues which should be disclosed in the accounts to ensure the true and fair view;
  - (c) The body is not a going concern and the accounts will need to be prepared on an appropriate alternative basis.
75. Based on the assessment undertaken, in my view:
- (d) The Council has a history of stable finance and ready access to financial resources in the future;
  - (a) There are no significant financial, operating or other risks that would jeopardise the County Council's continuing operation.
76. Therefore the Council is a going concern and it is appropriate for the Statement of Accounts to be prepared on that basis.

## **Recommendation**

77. It is recommended that the Council should be considered as a going concern and that the Statement of Accounts should be prepared on that basis.

## **Background papers**

- (a) County Council – 22 February 2017 – Medium Term Financial Plan, 2017/18 to 2019/20 and Revenue and Capital Budget 2017/18
- (b) County Council – 22 February 2017 – Budget 2017/18. Report under Section 25 of Local Government Act 2003
- (c) Annual Completion Report – 2015/16 – Durham County Council
- (d) Cabinet – 15 March 2017 – Forecast of Revenue and Capital Outturn 2016/17 – Period to 31 December 2016.

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

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**Appendix 1: Implications**

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**Finance -**

The report considers the County Council as a 'going concern'.

**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

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## Audit Committee

28 June 2017

### External Audit Progress Report – June 2017



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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:
  - (a) Summary of Audit Progress;
  - (b) Technical Update;
  - (c) National Reports and Updates.

### Summary of Audit Progress

- 3 Early audit testing was completed in a number of areas:
  - (a) Income
  - (b) Non-payroll expenditure
  - (c) Journals
  - (d) Pension Fund investment purchases and sales
- 4 The draft financial statements were received on 31 May 2017 and testing has commenced with a view to reporting to the July 2017 Audit Committee.
- 5 It is also the intention to deliver the Value for Money conclusion at the same Audit Committee meeting in July 2017.
- 6 Work on the Housing Benefit Subsidy certification has started with a view to having this work completed and presented to the Audit Committee in late 2017.

- 7 A letter has been sent to the Council's Chief Executive to outline the proposed fees for work under the National Audit Office (NAO) Code of Practice and to certify the Housing Benefit Subsidy return. These fees will be delivered in 2017/18 in line with the scale of fees set by the Public Sector Audit Appointments Ltd (PSAA).

### **Technical Update**

- 8 The previously reported CIPFA/LASAAC Code Board's proposed change to the measurement basis of Highways Assets has not proceeded. Therefore the Code of Practice on Local Authority Accounting ("the Code") has been updated with the removal of the change in measurement of Highways Assets being the only substantive change.
- 9 The 2017/18 Housing Benefit Subsidy return will be the last return completed under the external auditor's contract with the PSAA. From 2018/19 this work no longer forms part of the appointed auditor's responsibilities. The Council will need to make arrangements to appoint a 'reporting accountant' to provide assurance over the accuracy of the return to the Department for Work and Pensions (DWP).

### **National Reports and Updates**

- 10 This section provides an update on other areas that members of the Committee may find useful.

### **Recommendation and Reasons**

- 11 The Committee is requested to note the contents of the external auditor's progress report.

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**Contact: James Collins Tel: 0191 383 6331**

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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 Issues**– None.

**Legal Implications**– None.

# Audit Progress Report

Durham County Council including Durham County Council Pension Fund



June 2017



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# Audit progress

## Audit of the financial statements

We presented our Audit Strategy Memorandum for both the Council and the Pension Fund to the February 2017 Audit Committee meeting. We have identified no matters which require us to alter our planned approach to the 2016/17 audit.

In preparation for the earlier close down we have continued to hold liaison meetings with officers. In March 2017 we completed early audit testing in a number of areas, including:

- Income
- Non- payroll expenditure
- Journals
- Pension Fund investment purchases and sales

In line with the Council's timetable we received the draft financial statements on 31 May 2017. We have commenced our detailed testing on the financial statements. Our testing is initially focused on those areas considered to be higher risk of misstatement.

We will present our Audit Completion Reports to the July 2017 Audit Committee meeting.

## Value for Money conclusion

As presented in our Audit Strategy Memorandum we have not identified a significant risk for the year ended 31 March 2017. Areas of additional work which we need to complete before concluding on the Council's arrangements is ongoing.

We will present our Audit Completion Report, which outlines the results of our Value for Money conclusion, at the July Committee meeting.

## Housing Benefit Subsidy certification

We have held initial meetings with officers to discuss the nature and timing of the work required for the certification of the Council's Housing Benefit Subsidy return.

We will report the findings from this work, and any other assurance work that we undertake for the year, as part of our Certification and Assurance Report. We anticipate presenting this to the Committee in late 2017.

Further information on the future arrangements for the delivery of this work is provided later in this report.

## Fee Letter for 2017/18

We are required to write to the Council's Chief Executive, to outline our proposed fees for our work under the NAO Code of Audit Practice and to certify the Housing Benefit Subsidy return. We wrote to the Chief Executive confirming that we propose to charge fees for work to be delivered in 2017/18, in line with the scale fees set by Public Sector Audit Appointments Ltd.

Area	Proposed fee (2017/18)
Audit of Council Accounts and VFM conclusion	£250,688 (plus VAT)
Housing Benefit certification work	To be confirmed
Audit of Pension Fund Accounts	£25,918 (plus VAT)

# Technical update

## **Accounting for the Highways Network Asset – Update**

As previously reported CIPFA / LASAAC Code Board have decided not to proceed with the intended change in measurement basis for the Highways Network Asset (e.g. carriageways, footways, traffic management systems, highways land, and street furniture).

The change, that officers and auditors have been working hard to implement for 2016/17, would have seen these assets measured on the basis of their depreciated replacement cost as opposed to their historic cost. This significant change would have led to revaluation gains running into billions of pounds.

We will continue to keep the situation under review and will contribute to national discussions on any future decisions to implement the planned changes. We will also ensure that officers are kept aware of developments in this area.

## **Code of Practice on Local Authority Accounting ('the Code')**

As a result of the decision not to implement the change to Highways Network Asset, the CIPFA / LASAAC Code Board issued an update to the Code. The only substantive change introduced by the update was to remove provisions relating to the change in measurement basis for the Highways Network Asset.

In addition, CIPFA's Local Authority Accounting Panel has issued Bulletin 105 which covers issues to consider as part of the preparation of the 2016/17 financial statements. We have discussed these issues with management as well as providing a briefing on emerging accounting issues as part of our financial reporting workshops, attended by officers in February.

## **Housing Benefit Subsidy assurance arrangements**

Our work on the Council's Housing Benefit Subsidy return currently forms part of our responsibilities under our contract with Public Sector Audit Appointments Ltd (PSAA). Our work on the 2017/18 subsidy return will be the last time the work is carried out under this regime.

For the 2018/19 subsidy return, this work will no longer be carried out as part of the appointed auditor's responsibilities. As such, the Council will need to make arrangements to appoint a 'reporting accountant' to provide assurance over the accuracy of the return to it and the Department for Work and Pensions (DWP).

We have been working with the DWP to assist in the design of the new assurance framework and will issue a briefing to officers on the new approach when it is finalised in June.

# National reports and other updates

## National publications and other updates

- |   |  |
|---|--|
| 1 | Public Accounts Committee – Report on Health and Social Care Integration |
| 2 | National Audit Office – Report on 100% business rates retention          |
| 3 | Local Audit (Public Access to Documents) Act 2017                        |

### 1. Public Accounts Committee – Report on Health and Social Care Integration

The Public Accounts Committee has recently issued its [report on health and social care integration](#). Its primary conclusions were that:

- The Department of Health and Department of Communities and Local Government do not know what is the most effective balance of limited funding across health and social care;
- The Better Care Fund (BCF) has been used as a means of moving resources from the health sector to social care; and
- The BCF has been rendered redundant as a means of building integration as a result of the introduction of sustainability and transformation plans, and that these plans are neither transparent nor inclusive enough.

### 2. National Audit Office – Report on 100% business rates retention

The NAO has recently published a report on [planning for 100% local retention of business rates](#). The report finds that DCLG has made good progress in designing the scheme but the scale of the remaining challenges presents clear risks both to the timely delivery of the initiative and to the achievement of its overall objectives.

The report also highlights the risk that the pressure to deliver by 2019/20 could result in a scheme that has not been fully tested, and stresses the need for DCLG to assure itself that the scheme will deliver its core policy objectives and that these are not overlooked among the technical challenges of designing the scheme to a tight timetable.

### 3. Local Audit (Public Access to Documents) Act 2017

The Local Audit (Public Access to Documents) Act 2017 received royal assent in April 2017. The Act extends rights of inspection under section 26 of the Local Audit and Accountability Act 2014 to include journalists and citizen journalists.

The Act defines a journalist as ‘any person who produces for publication journalistic material (whether paid to do so or otherwise).’ While the Act extends rights of inspection, there are no changes in respect of our powers and duties under the Local Audit and Accountability Act 2014. The ability to ask the auditor questions about the accounts, and to make an objection at audit, continue to be restricted to local government electors only.

# Contact details

Please let us know if you would like further information on any items in this report.

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## Audit Committee

28 June 2017



### Strategic Risk Management Progress Report for the Quarter period January to March 2017

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#### Report of Corporate Management Team John Hewitt, 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 January to March 2017.

#### 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 31 March 2017, there were 22 risks on the corporate strategic risk register, one more than as at 31 December 2016. During quarter 4, three risks were added and two were removed.
- 5 In summary, the key risks to the Council remain as being:
  - (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 criteria 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;

(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;

(f) Major Interruption to IT Service Delivery.

Progress on addressing these key risks is detailed in Appendix 3.

6 Appendix 4 of this report lists all of the Council's strategic risks as at 31 March 2017.

7 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.

### **Recommendations and reasons**

8 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: Kevin Roberts 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 31 March 2017, there were 22 risks on the corporate strategic risk register, one more than as at 31 December 2016. During quarter 4, three risks were added and two were removed.

The following matrix profiles the strategic risks according to their Net risk evaluation as at 31 March 2017. To highlight changes in each category during the last quarter, the number of risks as at 31 December 2016 is shown in brackets.

### **Overall number of Strategic Risks as at 31 March 2017**

Impact					
Critical	1 (1)		4 (4)		1 (1)
Major		2 (1)	3 (4)	1 (1)	
Moderate			10 (7)	0 (2)	
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."

The key risks are reported in more detail below.

In summary, key points to draw to your attention are:

### **New Risks**

- 1 *“Proposed changes to the School Funding Formula threaten the viability of some schools”*. The Government is consulting about a National Funding Formula for mainstream primary and secondary schools, which will replace local formulas, taking effect from April 2019. The net evaluation of the risk is Major impact with a Possible likelihood of occurrence. **(CYP)**
- 1 *“Progressive land slippage near the A690 may develop to an extent where a major road closure is necessary for repairs to be undertaken”*. There has been incremental movement, land slippage and evidence of carriageway failure over many years on a section of the A690, the main access road to Durham City. Various remedial works have been undertaken in an attempt to address the problem and monthly monitoring inspections are now being made. **(REAL)**
- 2 *“Potential adverse financial and operational impacts of the Homelessness Reduction Act on the Housing Solutions service”*. The introduction of the Homelessness Reduction Act 2017 will have a significant impact on the Housing Solutions Service as it makes changes to the current homelessness legislation contained in the Housing Act 1996. It will place additional duties on local authorities to intervene at an earlier stage to prevent homelessness in their areas. It will require councils to help all eligible people find secure accommodation for 56 days before they become homeless or for a further 56 days if they are already homeless. This risk is compounded by austerity budget reductions to prevention services, which could increase the impact. **(REAL)**

### **Increased Risks**

- 3 No corporate strategic risks have increased during the quarter.

### **Removed Risks**

- 4 The evaluations of the following risks have been reduced to reflect current circumstances and the effectiveness of mitigating controls. Consequently, they are now below the corporate risk appetite and have been removed from the corporate strategic risk register. They will continue to be managed and reported at service grouping level.
  - *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 have an unacceptable impact upon the ability to fully utilise external funding and in particular the European Structural Funds programme for 2014-2020. (REAL)*Reduced from Major impact and Possible likelihood to Moderate / Unlikely.

- *The continuation of weak economic conditions, financial austerity, the impact of Brexit and reduced household incomes may see increased pressure on areas of lower housing demand with consequent negative impacts on some communities, neighbourhoods and local environments. (REAL)*

Reduced from Moderate impact and Probable likelihood to Moderate / Unlikely. These issues continue to exist and the Council is doing what it can to monitor the situation; if matters change or escalate, the risk will be revisited.

### **Reduced Risks**

5 The evaluation of the following risk has been reduced to reflect current circumstances and the effectiveness of mitigating controls. The revised evaluation remains above the corporate risk appetite and the risk will remain on the corporate strategic risk register.

- *Diminishing Capital Resources, continuing depressed land values and cautious growth in the private sector may have an impact on the ability to deliver major projects and Town initiatives within proposed timescales. (REAL)*

Reduced from Moderate impact and Probable likelihood to Moderate / Possible.

## Key Risks

6 The Council's key risks are shown in the following table.

### Key Risks Matrix

Net Impact					
Critical			Risk 1 MTFP Slippage Risk 3 PSN Code of Connection Risk 4 Child Safeguarding Risk 5 Adult Safeguarding		Risk 2 Ongoing Government funding cuts
Major				Risk 6 Major Interruption to IT Service Delivery	
Moderate					
Minor					
Insignificant					
<b>Net Likelihood</b>	Remote	Unlikely	Possible	Probable	Highly Probable

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.

## Key Risks Schedule

The schedule below 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.

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
1	RES Risk Owner: 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 Risk Owner: 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 Risk Owner: Alan Patrickson	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.  A PSN risk register has been completed and is reviewed on an ongoing basis and as part of the annual review.		This risk is long term.

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	CYPS Risk Owner: Carole Payne	Altogether Better for Children and Young People	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.		Nationally there has been a statutory change to when Serious Case Reviews are undertaken. This risk is long term.
5	AHS Risk Owner: Lee Alexander	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.		Nationally there has been an increased awareness of potential vulnerabilities relating to adults with care and support needs and concern about the pressure to discharge some service users under the Transforming Care programme without agreement on necessary resourcing to meet their multiple complex needs.  This risk is long term.
6	RES Risk Owner: Alan Patrickson	Altogether Better Council	Major Interruption to IT Service Delivery	Major	Probable	A programme for an electrical upgrade has been developed		It is anticipated that works will be completed by December 2017.

## **Appendix 4: List of all Strategic Risks (per Corporate Theme)**

Based on the **Net** risk assessment as at 31 March 2017, 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	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.
2	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.
3	RES	Major Interruption to IT Service Delivery
4	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.
5	T&P	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO
6	T&P	Risk that the Council does not respond to the Government's changes to Welfare Reform
7	T&P	Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation
8	RES	Serious breach of Health and Safety Legislation
9	REAL	Potential adverse financial and operational impacts of the Homelessness Reduction Bill on the Housing Solutions service.
10	T&P	Failure to consider equality implications of decisions on communities leading to legal challenge and delays in implementation
11	RES	Due to the current economic climate and amount of change occurring across the Council, there is potential for increases in fraud and error.
12	T&P	Failure to prepare for, respond to and recover from a disruptive event, leading to a major interruption to the provision of essential services by the Council.

### Altogether Better for Children and Young People

Ref	Service	Risk
13	CYP	Failure to protect child from death or serious harm (where service failure is a factor or issue)
14	CYP	Proposed changes to the School Funding Formula threaten the viability of some schools

### Altogether Greener

No significant strategic risks have been identified under this theme.

### Altogether Healthier

Ref	Service	Risk
15	AHS	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

Ref	Service	Risk
16	AHS	A service failure of Adult Safeguarding leads to death or serious harm to a service user.
17	T&P	Breach of duty under Civil Contingencies Act by failing to prepare for, respond to and recover from a major incident, leading to a civil emergency.
18	REAL	Damage to Highways assets as a result of a severe weather event.
19	REAL	Serious injury or loss of life due to Safeguarding failure (Transport Service)

**Altogether Wealthier**

<b>Ref</b>	<b>Service</b>	<b>Risk</b>
20	REAL	Future strategic direction of the Council and the County will be adversely impacted if the County Durham Plan is not adopted.
21	REAL	Diminishing Capital Resources, continuing depressed land values and cautious growth in the private sector may have an impact on the ability to deliver major projects and Town initiatives within proposed timescales.
22	REAL	Progressive land slippage near the A690 may develop to an extent where a major road closure is necessary for repairs to be undertaken.

## **Appendix 5: Performance of Risk Management**

### **Performance Indicators - Tangible Measures**

<b>Objective: To demonstrate that risks are being effectively managed</b>				
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>	<b>Last Quarter</b>	<b>This Quarter</b>
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)	None	Three
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 Constitution Working Group recommended that Council approve the updated Local Code of Corporate Governance to replace the existing version in the Council's Constitution.	The Council approved the updated Local Code of Corporate Governance to replace the previous version in the Council's Constitution.
<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>Last Quarter</b>	<b>This Quarter</b>
Appropriate staff are adequately skilled in risk management	Tier 4 managers attending risk management training course	Target N/A (Quarterly)	No training provided in this quarter.	No training provided in this quarter.
Appropriate staff are adequately skilled in risk management	Tier 5 managers attending risk management training course	Target N/A (Quarterly)	No training provided in this quarter.	No training provided in this quarter.
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)	14 members attended a risk management briefing session in November 2016.	No training provided in this quarter.

## Intangible Measures

Objective: To demonstrate that risks are being effectively managed and adding value			
KPI	Measure of Assessment	Frequency of Measurement	Evidence
Good governance maintained	Gather information on risk management successes, and beneficial outcomes the Council achieve in managing risks	Reported quarterly	Through effective management of the following risk, the Council has helped realise economic opportunities and growth for Co Durham. <ul style="list-style-type: none"> <li><i>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 have an unacceptable impact upon the ability to fully utilise external funding and in particular the European Structural Funds programme for 2014-2020. (REAL)</i></li> </ul>
Successfully delivered projects	As above	As above	
Reputation protected	As above	As above	Through effective management of the following risk, the Council has helped reduce or contain both the number of empty properties and anti-social behaviour. <ul style="list-style-type: none"> <li><i>The continuation of weak economic conditions, financial austerity, the impact of Brexit and reduced household incomes may see increased pressure on areas of lower housing demand with consequent negative impacts on some communities, neighbourhoods and local environments. (REAL)</i></li> </ul>
Innovative decisions that were risk managed	As above	As above	
Financial return for the Council	As above	As above	Through effective management of the following risk, the Council has helped secure inward investment into town centres and made a positive contribution to levels of employment. <ul style="list-style-type: none"> <li><i>Diminishing Capital Resources, continuing depressed land values and cautious growth in the private sector may have an impact on the ability to deliver major projects and Town initiatives within proposed timescales. (REAL)</i></li> </ul>

## Appendix 6: Emerging Risks

The following emerging risks have been highlighted by service management teams. In this context, emerging risks are newly developing or changing risks which are difficult to quantify, but which may have a major impact on the Council if they materialise in the future.

Ref	Emerging Risk	Comments
1	Following a recent ruling by the European Court of Justice in a case involving Westminster City Council, there is a possibility of <b>recovery of licence fees</b> by traders from local authorities. <b>(AHS)</b>	Officers are looking at the implications of the ruling.
2	<b>Inflationary pressures</b> have seen some suppliers increase the cost of their products due to the value of the dollar against the pound which has impacted on some service budgets. <b>(RES)</b>	Officers are monitoring developments.
3	Following the referendum in June 2016, in which the United Kingdom voted to leave the European Union <b>(Brexit)</b> , there will potentially be adverse effects on the economy, safety and welfare of the County. <b>(T&amp;P)</b>	There is still uncertainty about the impacts and CMT is monitoring developments.
4	The <b>General Data Protection Regulation</b> will replace the Data Protection Act in May 2018, which will require significant changes to the way services use personal data. <b>(T&amp;P)</b>	A risk assessment will be completed in the 2017/18 quarter 1 review.
5	The introduction of the new <b>Homelessness Reduction Bill</b> will see a significant impact on the Housing Solutions Service as it will place additional duties on local authorities to intervene at an earlier stage to prevent homelessness in their areas. This is compounded by austerity budget reductions to prevention services, which could compound the impact. <b>(REAL)</b>	This risk has now been added to the corporate strategic risk register.
6	Increasing numbers of <b>equal pay claims</b> from staff using a specific group as a comparator. <b>(RES)</b>	Officers are monitoring developments and there are ongoing negotiations and consultation with trade unions.

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**Audit Committee**

**28 June 2017**



**Internal Audit Progress Report  
Period Ended 31 March 2017**

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**Report of Paul Bradley, Chief Internal Auditor and Corporate Fraud  
Manager**

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**Purpose of the Report**

- 1 To inform Members of the work that has been carried out by Internal Audit during the period 1 April 2016 to 31 March 2017 as part of the 2016/2017 Internal Audit Plan.
- 2 The report aims to:
  - ) Provide a high level of assurance, or otherwise, on internal controls operating across the Council that have been subject to an Internal Audit of systems and processes;
  - ) Advise of issues where controls need to be improved in order to effectively manage risks;
  - ) Advise of other types of audit work carried out such as grant certification or consultancy reviews where an assurance opinion on the control environment may not be applicable;
  - ) Advise of amendments to the Internal Audit Plan;
  - ) Track the progress of responses to Internal Audit reports and the implementation of agreed audit recommendations;
  - ) Advise of any changes to the audit process;
  - ) Provide an update on the performance indicators comparing actual performance against planned.

3 The appendices attached to this report are summarised below. Those marked with an asterisk are not for publication (Exempt information under Part 3 of Schedule 12a to the Local Government Act 1972, paragraph 3).

- ) Appendix 2 – Progress against the Internal Audit Plan;
- ) Appendix 3 – Final reports issued in the quarter ended 31 March 2017;
- ) Appendix 4 – The number of high and medium priority actions raised and implemented;
- ) Appendix 5 – Internal Audit performance indicators;
- ) Appendix 6\* – Overdue Actions
- ) Appendix 7\* – Limited Assurance Audit Opinions

## Background

- 4 As an independent consultancy service, the Council’s Internal Audit Team strives to continue to add value and improve the organisation’s operations as well as providing objective assurance to service managers and the Council.
- 5 The Internal Audit Strategy and Annual Internal Audit Plan, covering the period 1 April 2016 to 31 March 2017, was approved by the Audit Committee on 17 May 2016.

## Progress against the Internal Audit Plan

- 6 A summary of the approved Internal Audit Plan for each Service Grouping, updated to include work in progress and any audits brought forward from last year’s plan, is attached at Appendix 2. The appendix illustrates the current status of each audit as at 31 March 2017 and, where applicable, also gives the resultant assurance opinion.
- 7 A summary of the status of audits in 2016/17 is illustrated in the table below:

Service Grouping	Not Started	Planning and Preparation	In Progress	Draft Report	Final Report / Complete
Adult and Health Services (AHS)	0	0	4	0	30
Children and Young People’s Services (CYPS) *Excluding Schools	1	1	3	1	22
Regeneration and Local Services (REAL)	0	1	2	3	60
Resources (RES)	0	12	23	7	61
Schools	1	0	8	21	31
Transformation and Partnerships (TAP)	0	1	1	1	11
<b>TOTAL</b>	<b>2</b>	<b>15</b>	<b>41</b>	<b>33</b>	<b>215</b>

- 8 A summary of the final internal audit reports issued in this quarter is presented in Appendix 3.
- 9 The total number of productive Internal Audit days required to deliver the plan was 4,748. As at 31 March, the service delivered 4,863 productive days, representing 102% of the total plan. The target at the end of the year was for 90% to be delivered, therefore performance has exceeded the target. This has been a direct result of the improved absence management across the service.

### Internal Audit activity in the quarter

#### Amendments to the Approved 2016/2017 Internal Audit Plan

- 10 The following nine reviews were removed from the approved Internal Audit Plan in the quarter, following agreement between Corporate Directors and the Chief Internal Auditor and Corporate Fraud Manager.

Service Grouping	Audit	Audit Type	Reason
Adult and Health Services (AHS)	Continuing Health Care	Assurance	Deferred to 2017/18, further to discussion with Head of Adult Care and pending formal agreement to scope of intended activity.
Regeneration and Local Services (REAL)	Effectiveness of MAIS and CSE Arrangements	Assurance	Deferred to 2017/18.
Regeneration and Local Services (REAL)	Fly Tipping	Assurance	Deferred to 2017/18.
Regeneration and Local Services (REAL)	Project Management Arrangements	Advice and consultancy	Deferred to 2017/18.
Regeneration and Local Services (REALL)	Gala Ticketing System	Advice and consultancy	Cancelled, as system no longer being implemented.
Resources (RES)	SQL review	Assurance	Cancelled, as it was agreed with the service that the audit was no longer required.
Resources (RES)	Information Security – Information Sharing	Assurance	Cancelled, as it was agreed with the service that the audit was no longer required.
Resources (RES)	Service Review	Advice and consultancy	Cancelled, as input no longer required by the service.
Resources (RES)	Enforcement	Assurance	Deferred to 2017/18.

- 11 17 unplanned reviews were added to the Internal Audit Plan in the quarter. Of these, 15 were potential fraud or irregularity investigations.

- 12 The two other reviews, which were sourced from the service contingency provision within the Internal Audit Plan, are detailed in the table below.

Service Grouping	Audit	Audit Type	Reason
Regeneration and Local Services (REAL)	Asset Management – Follow Up	Assurance	Review added following the issue of a limited level of assurance report in the previous quarter.
Resources (RES)	Apprenticeship Levy Implementation Group	Advice and consultancy.	Attendance at working group meetings.

### Outstanding Management Responses to Draft Internal Audit Reports

- 13 There are no draft internal audit reports overdue at the time of writing.

### Survey Response Rate

- 14 The table below sets out the response rate and average score, by Service Grouping, for the customer satisfaction surveys issued during the period up to 31 March 2017.

Service Grouping	Surveys issued	Surveys returned	% returned	Av. score
Adult and Health Services (AHS)	20	17	85	4.8
Children and Young People's Services (CYPS) *Excluding Schools	7	7	100	4.7
Regeneration and Local Services (REAL)	43	37	86	4.4
Resources (RES)	51	50	98	4.3
Schools	31	17	55	4.8
Transformation and Partnerships (TAP)	9	7	78	4.5
<b>TOTAL</b>	<b>161</b>	<b>135</b>	<b>84</b>	<b>4.5</b>

### Responses to Internal Audit Findings and Recommendations

- 15 Details of the numbers of High and Medium priority ranked recommendations that have been raised and those that are overdue, by Service Grouping, are presented in Appendix 4.

- 16 A summary of progress on the actions due, implemented and overdue, as at 31 March 2017, is given in the table below.

Service Grouping	Number of Actions Due to be Implemented	Number of Actions Actually Implemented	Actions Overdue by Agreed Original Target Date	Actions with an Agreed Revised Target Date	Actions Overdue by Revised Target Date
Adult and Health Services (AHS)	160	159	1	1	0
Children and Young People's Services (CYPS) *Excluding Schools	89	88	1	1	0
Regeneration and Local Services (REAL)	438	409	29	29	0
Resources (RES)	363	354	9	9	0
Transformation and Partnerships (TAP)	30	30	0	0	0
<b>TOTAL</b>	<b>1,080</b>	<b>*1,040</b>	<b>40</b>	<b>40</b>	<b>0</b>

\* Includes 11 high priority actions, the implementation of which are to be confirmed as part of follow up audits.

- 17 It is encouraging to note that, of the 1,080 actions due to be implemented, 1,040 (96%) have been implemented.
- 18 Details of the actions that are overdue, following their agreed original target dates, are included at Appendix 6.

### Limited Assurance Audit Opinions

- 19 There have been four audits finalised in this quarter that have been issued with a 'limited assurance' opinion. These are summarised in the table below.

Service Grouping	Service Area	Audit
Children and Young People's Services (CYPS)	Children's Services	Foster Carer Payments
Regeneration and Local Services (REAL)	Culture and Sport	Leisure Centre Timesheet Procedures
Resources (RES)	ICT	Mobile Computing
Resources (RES)	ICT	ICT Asset Register

- 20 Further details of the findings from these audits are included within Appendix 7.

### Performance Indicators

- 21 A summary of actual performance, as at the end of March 2017, compared with our agreed targets is detailed in Appendix 5.

## **Recommendations**

22 Members are asked to note:

- (a) The amendments made to the 2016/17 Annual Internal Audit Plan;
- (b) The work undertaken by Internal Audit during the period ending 31 March 2017;
- (c) The performance of the Internal Audit Service during the period;
- (d) The progress made by service managers in responding to the work of Internal Audit.

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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.

**Risk** – None.

**Equality and Diversity / Public Sector Equality Duty** – None.

**Accommodation** – None.

**Crime and Disorder** – None.

**Human Rights** – None.

**Consultation** – All Corporate Directors, the Director of Transformation and Partnerships and all Heads of Service.

**Procurement** – None.

**Disability Issues** – None.

**Legal Implications** – None.

INTERNAL AUDIT PLAN PROGRESS AS AT 31 MARCH 2017

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
<b>2015 / 2016 Internal Audit Plan - Audits Brought Forward</b>					
Transformation and Partnerships	Planning and Performance	Data Quality Framework	Assurance	Final Report	Moderate
Transformation and Partnerships	Planning and Performance	DP - Data Breach arrangements	Assurance	In Progress	
Transformation and Partnerships	Planning and Performance	Freedom of Information	Assurance	Final Report	Moderate
Transformation and Partnerships	Partnerships and Community Engagemen	AAPs: Performance Management Framework	Assurance	Final Report	Substantial
Transformation and Partnerships	Partnerships and Community Engagemen	Partnership Governance Framework	Key System	Final Report	Moderate
Adult & Health Services	Adult Services	Section 117 Process	Advice & Consultancy	In Progress	
Adult & Health Services	Adult Services	Extra Care Housing - Prepaid Card Roll Out	Advice & Consultancy	Final Report	N/A
Adult & Health Services	Adult Services	Reablement Car Mileages	Advice & Consultancy	Final Report	N/A
Adult & Health Services	EHCP	Inspection of Licensing - Body Art Licences	Assurance	Final Report	Substantial
Adult & Health Services	EHCP	Licensing Enforcement - Safeguarding Complaints	Assurance	Final Report	Substantial
Adult & Health Services	EHCP	Accumulations	Assurance	Final Report	N/A
Adult & Health Services	EHCP	Works in Default	Assurance	Final Report	Substantial
Adult & Health Services	EHCP	Consumer Services - Weights and Measures Approved Body Status	Assurance	Cancelled	N/A
Adult & Health Services	Planning & Service Strategy	E Market Place	Advice & Consultancy	Defer to 2017/18	
Adult & Health Services	Planning & Service Strategy	SSID System Review	Assurance	Final Report	Substantial
Adult & Health Services	Planning & Service Strategy	POPPIE Systems Review	Assurance	Final Report	Substantial
Adult & Health Services	Planning & Service Strategy	County Durham Well Being for Life Service - DCRS	Assurance	Final Report	Moderate
Adult & Health Services	Public Health	Drug and Alcohol Treatment Services - Contract Management Arrangements	Assurance	Final Report	Moderate
Adult & Health Services	Public Health	Review of Lifeline Contract	Assurance	Final Report	Moderate
Adult & Health Services	Public Health	Delivery of 0-19 Services - Due Diligence	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Children's Services	Foster Carer Payments	Assurance	Final Report	Limited
Children and Young People's Services	Children's Services	Children's Homes - High Etherley	Assurance	Final Report	Limited
Children and Young People's Services	Children's Services	Children's Homes - Framwellgate Moor	Assurance	Final Report	Moderate
Children and Young People's Services	Children's Services	Children Safeguarding Governance Arrangements	Assurance	Planning and Preparation	
Children and Young People's Services	Children's Services	Supervised Spend - Leaving Care	Assurance	Final Report	Limited
Children and Young People's Services	Planning & Service Strategy	SSID System Review	Assurance	Final Report	Substantial
Regeneration and Local Services	Transport and Contract Services	Telecare Services & Care Connect	Assurance	Final Report	Substantial
Regeneration and Local Services	Transport and Contract Services	Supported Housing - CCTV	Assurance	Final Report	Substantial
Regeneration and Local Services	Transport and Contract Services	Transport - Contractual arrangements	Assurance	Final Report	Limited
Regeneration and Local Services	Economic Development and Housing	Gypsy Roma Traveller Sites	Assurance	Final Report	Moderate
Regeneration and Local Services	Economic Development and Housing	Business Durham	Assurance	Final Report	Moderate
Regeneration and Local Services	Economic Development and Housing	Financial Assistance Programme	Assurance	Final Report	Moderate
Regeneration and Local Services	Economic Development and Housing	Durham Employment and Skills	Assurance	Final Report	Substantial
Regeneration and Local Services	Economic Development and Housing	International Relations	Assurance	Final Report	Moderate
Regeneration and Local Services	Economic Development and Housing	Durham Villages Regeneration Company	Advice & Consultancy	Final Report	N/A
Regeneration and Local Services	Direct Services	Contract Audit - Direct Services	Assurance	Final Report	Moderate
Regeneration and Local Services	Direct Services	Effectiveness of MAIS and CSE Arrangements	Assurance	Defer to 2017/18	
Regeneration and Local Services	Direct Services	Fly Tipping	Assurance	Defer to 2017/18	
Regeneration and Local Services	Direct Services	Fleet Management - Development of Fleet Management System	Advice & Consultancy	Complete	N/A
Regeneration and Local Services	Projects and Business Services	Compensation Payments	Advice & Consultancy	Final Report	N/A
Regeneration and Local Services	Projects and Business Services	Environmental Compliance	Advice & Consultancy	Final Report	N/A
Regeneration and Local Services	Technical Services	Compliance with Construction, Design and Maintenance Procedures	Assurance	Final Report	Substantial
Regeneration and Local Services	Technical Services	Stores Management - Disposal of Waste Materials	Assurance	Final Report	Substantial
Regeneration and Local Services	Technical Services	Capital Project Review	Assurance	Final Report	Moderate
Resources	Legal and Demnocratic Services	Land Charges	Assurance	Final Report	Moderate
Resources	Corporate Finance and HR	Procurement - Off Contract Spend	Assurance	Final Report	Moderate
Resources	Corporate Finance and HR	Procurement - CPRs	Assurance	Final Report	Substantial

**INTERNAL AUDIT PLAN PROGRESS AS AT 31 MARCH 2017**

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Corporate Finance and HR	Procurement cards	Assurance	Final Report	Limited
Resources	Corporate Finance and HR	Journals	Key System	Final Report	Substantial
Resources	Corporate Finance and HR	Recruitment and Selection	Assurance	Final Report	Substantial
Resources	Corporate Finance and HR	Appraisals	Assurance	Final Report	Moderate
Resources	Corporate Finance and HR	Violent Persons Register	Assurance	Planning and Preparation	
Resources	Corporate Finance and HR / CAS	Employee tribunal arrangements	Advice & Consultancy	Final Report	N/A
Resources	Financial and HR Services	Council Tax	Key System	Final Report	Substantial
Resources	Financial and HR Services	Business Rates	Key System	Final Report	Substantial
Resources	Financial and HR Services	Housing Benefits	Key System	Final Report	Moderate
Resources	Financial and HR Services	Creditors	Key System	Final Report	Moderate
Resources	Financial and HR Services	Creditors - Invoices with no PO	Key System	Final Report	Moderate
Resources	Financial and HR Services	Creditors - Masterfile	Key System	Final Report	Moderate
Resources	Financial and HR Services	Cash Collection	Key System	Final Report	Moderate
Resources	Financial and HR Services	Debtors	Key System	Final Report	Moderate
Resources	Financial and HR Services	Payroll	Key System	Final Report	Substantial
Resources	Financial and HR Services	Budgetary Control	Key System	Final Report	Substantial
Resources	Financial and HR Services	Better Care Fund	Assurance	Final Report	Substantial
Resources	Information and Communication Techno	ICT Service Level Agreements	Assurance	In Progress	
Resources	Information and Communication Techno	ISP - Security Incident Management	Assurance	In Progress	
Resources	Information and Communication Techno	ISP - PSN Remedial Action	Assurance	In Progress	
Resources	Information and Communication Techno	ISP - Systems Development & Maintenance	Assurance	Final Report	Substantial
Resources	Information and Communication Techno	Active Directory	Advice & Consultancy	Defer to 2017/18	
Resources	Information and Communication Techno	Design and Print Service	Assurance	Final Report	Moderate
Resources	Internal Audit, Risk and Fraud	Counter Fraud arrangements	Key System	Final Report	N/A
<b>2016 / 2017 Internal Audit Plan</b>					
Transformation and Partnerships	Policy and Communications	Business Continuity	Key System	Final Report	Substantial
Transformation and Partnerships	Planning and Performance	Data Quality	Assurance	Draft Report	
Transformation and Partnerships	Planning and Performance	Equality Impact Assessment process for MTFP	Assurance	Final Report	Substantial
Transformation and Partnerships	Planning and Performance	Data Protection - Accessing External Databases	Assurance	Planning and Preparation	
Transformation and Partnerships	Planning and Performance	Data Protection - Neighbourhood Services Healthchecks	Assurance	Cancelled	
Transformation and Partnerships	Planning and Performance	County Records Office	Assurance	Final Report	Substantial
Transformation and Partnerships	Planning and Performance	Information Governance Group	Advice & Consultancy	Complete	N/A
Transformation and Partnerships	Partnerships and Community Engagem	Community Grants	Assurance	Final Report	Moderate
Transformation and Partnerships	Partnerships and Community Engagem	Community Leisure Accounts	Advice & Consultancy	Complete	N/A
Transformation and Partnerships	Partnerships and Community Engagem	Community Buildings - Health and Safety Compliance	Advice & Consultancy	Complete	N/A
Adult & Health Services	Adult Services	Direct Payment Cards	Advice & Consultancy	In Progress	
Adult & Health Services	Adult Services	Continuing Health Care	Assurance	Defer to 2017/18	
Adult & Health Services	Adult Services	Shared Lives	Assurance	Final Report	Limited
Adult & Health Services	Adult Services	Adaptations Service Follow Up	Assurance	Final Report	Moderate
Adult & Health Services	Adult Services	Implementation of the Care Act	Advice & Consultancy	Complete	N/A
Adult & Health Services	Adult Services	Pathways - Establishment Audit	Advice & Consultancy	In Progress	
Adult & Health Services	Adult Services	Pathways - Establishment Closure Audit - Consett	Assurance	Final Report	Substantial
Adult & Health Services	Adult Services	Pathways - Establishment Closure Audit - Chester Le Street	Assurance	Final Report	Substantial
Adult & Health Services	Adult Services	Pathways - Establishment Closure Audit - Bishop Auckland	Assurance	Final Report	Substantial
Adult & Health Services	Adult Services	Reablement Services	Assurance	Final Report	Moderate
Adult & Health Services	Commissioning	Transport Group - Outcomes of People 2 review	Advice & Consultancy	Complete	N/A
Adult & Health Services	Commissioning	Procurement - Arrangements for contract management and monitoring	Advice & Consultancy	Complete	N/A

## INTERNAL AUDIT PLAN PROGRESS AS AT 31 MARCH 2017

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Adult & Health Services	Commissioning/Resources	Creditors Supplier Masterfile	Assurance	Final Report	Limited
Adult & Health Services	EHCP	Control of Infectious Diseases (Third Party Assurance)	Assurance	Final Report	Substantial
Adult & Health Services	EHCP	Pollution Control - Planning Consultation Arrangements	Assurance	Defer to 2017/18	
Adult & Health Services	EHCP	Contaminated Land	Assurance	Defer to 2017/18	
Adult & Health Services	EHCP	Trading Standards Grant	Grant Claim	Final Report	N/A
Adult & Health Services	Planning & Service Strategy	Information Security - Caldicott compliance (attendance at Caldicott Group meetings)	Advice & Consultancy	Complete	N/A
Adult & Health Services	Planning & Service Strategy	Petty Cash Arrangements - Locality Offices	Advice & Consultancy	Defer to 2017/18	
Adult & Health Services	Public Health	DCRS - Data Quality	Advice & Consultancy	Final Report	N/A
Adult & Health Services	Public Health	Stop Smoking Service (Nicotine Replacement Vouchers) Revisit	Advice & Consultancy	Final Report	N/A
Adult & Health Services	Public Health	Stop Smoking Service (Nicotine Replacement Vouchers) Revisit following Advice	Assurance	In Progress	
Adult & Health Services	Public Health	Alcohol Brief Interventions Service (PharmOutcomes)	Advice & Consultancy	Final Report	N/A
Adult & Health Services	Public Health	Supervised Consumption (Pharmoutcomes)	Advice & Consultancy	Final Report	N/A
Adult & Health Services	EHCP	Taxi Licensing - Driver Licence Verification	Advice & Consultancy	Final Report	N/A
Children and Young People's Services	Children's Services	Troubled Families Programme - Milestone 1 of 4	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Children's Services	Troubled Families Programme - Milestone 2 of 4	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Children's Services	Troubled Families Programme - Milestone 3 of 4	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Children's Services	Troubled Families Programme - Milestone 4 of 4	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Children's Services	Children's Homes - Establishment Audit	Assurance	Defer to 2017/18	
Children and Young People's Services	Children's Services	Supervised Spend - Leaving Care Service: Follow Up	Assurance	In Progress	
Children and Young People's Services	Children's Services	One Point Hubs - Establishment Audit	Advice & Consultancy	Defer to 2017/18	
Children and Young People's Services	Children's Services	Aycliffe Locality Office, Residential and Secure Services - Follow Up	Assurance	Defer to 2017/18	
Children and Young People's Services	Education	School Programme provided through SLA	Assurance	Various	17S, 12M, 2L
Children and Young People's Services	Education	National College for Teaching and Leadership (NCTL) Grant Certification Work - Direct	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education	National College for Teaching and Leadership (NCTL) Grant Certification Work -	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education	Youth Employment Initiative - ESF Interim Claim Process	Advice & Consultancy	Final Report	N/A
Children and Young People's Services	Education	Youth Employment Initiative - Training Provided to YEI Staff	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education	Youth Employment Initiative - Grant Claim Stage 2 Review	Advice & Consultancy	Final Report	Moderate
Children and Young People's Services	Education	Youth Employment Initiative - Detailed instructions for claim procedure - DurhamWorks	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education	Schools Financial Value Standard (SFVS)	Advice & Consultancy	In Progress	
Children and Young People's Services	Education	Schools - Safe Recruitment and Selection	Assurance	Defer to 2017/18	
Children and Young People's Services	Education	The Woodlands Pupil Referral Unit - (Finance and Governance)	Assurance	Not Started	
Children and Young People's Services	Education	Careers Service	Assurance	Cancelled	
Children and Young People's Services	Education	Education & Business Learning Organisation	Assurance	Cancelled	
Children and Young People's Services	Education	Governor Training: Internal Audit Role in Supporting Schools	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education	Governor Training: Schools Financial Value Standard – The Governors Role	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education	School Business Manager Training	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education	Head Teacher Group Attendance	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education	Schools User Provider Group	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Planning & Service Strategy	Information Security - Caldicott compliance - Data Sharing Procedures - Foster Carers	Assurance	In Progress	
Children and Young People's Services	Planning & Service Strategy	Information Security - Caldicott compliance (attendance at Caldicott Group meetings)	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Children's Services	Children's Homes - High Etherley Follow Up	Assurance	Final Report	Substantial
Children and Young People's Services	Education - Schools	Schools - Safe Recruitment and Selection	Assurance	Draft Report	Limited
Regeneration and Local Services	Planning and Assets	Utility Bills	Assurance	Final Report	Moderate
Regeneration and Local Services	Planning and Assets	Section 106 arrangements	Advice & Consultancy	Final Report	N/A
Regeneration and Local Services	Planning and Assets	Building Control - Systems Review	Assurance	Final Report	Moderate
Regeneration and Local Services	Planning and Assets	Asset Management	Assurance	Final Report	Limited
Regeneration and Local Services	Planning and Assets	Land Sales - Quality and Price	Advice & Consultancy	Draft Report	
Regeneration and Local Services	Planning and Assets	Low Carbo	Grant	Final Report	N/A

## INTERNAL AUDIT PLAN PROGRESS AS AT 31 MARCH 2017

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Regeneration and Local Services	Planning and Assets	Rebus	Grant	Final Report	N/A
Regeneration and Local Services	Strategy, Programmes and Performance	EU Structural Funds Programme	Assurance	Final Report	Moderate
Regeneration and Local Services	Strategy, Programmes and Performance	Project Management arrangements	Advice & Consultancy	Defer to 2017/18	
Regeneration and Local Services	Transport and Contract Services	Public Right of Way	Assurance	In Progress	
Regeneration and Local Services	Transport and Contract Services	On Street and Off Street Parking	Assurance	Final Report	Limited
Regeneration and Local Services	Transport and Contract Services	Concessionary Fares	Assurance	Final Report	Moderate
Regeneration and Local Services	Transport and Contract Services	Transport Contractual Arrangements (follow up)	Assurance	Final Report	N/A
Regeneration and Local Services	Transport and Contract Services	Local Transport Capital Block Funding	Grant	Final Report	N/A
Regeneration and Local Services	Transport and Contract Services	Local Pinch Point Fund	Grant	Cancelled	
Regeneration and Local Services	Transport and Contract Services	Bus Subsidy Ring Fenced Grant	Grant	Final Report	N/A
Regeneration and Local Services	Economic Development and Housing	Seaham Marina Grant (Capital)	Grant	Final Report	N/A
Regeneration and Local Services	Economic Development and Housing	Accommodation Project	Advice & Consultancy	Complete	N/A
Regeneration and Local Services	Economic Development and Housing	Disabled Facilities Grant	Grant	Final Report	N/A
Regeneration and Local Services	Economic Development and Housing	Netpark Phase 3	Grant	Cancelled	
Regeneration and Local Services	Direct Services	Bulky Goods Collections Service	Advice & Consultancy	Defer to 2017/18	
Regeneration and Local Services	Direct Services	Bereavement Services - Public Health Funeral Arrangements	Assurance	Final Report	Substantial
Regeneration and Local Services	Direct Services	Allotment Management - Follow Up	Assurance	Defer to 2017/18	
Regeneration and Local Services	Direct Services	Durham Crematorium	Assurance (Joint Ctte)	Final Report	Substantial
Regeneration and Local Services	Direct Services	Mounsett Crematorium	Assurance (Joint Ctte)	Final Report	Substantial
Regeneration and Local Services	Direct Services	Woodland Burial Trust – Follow Up	Advice & Consultancy	Final Report	N/A
Regeneration and Local Services	Direct Services	Fuel Stocks & Stores	Assurance	Final Report	Moderate
Regeneration and Local Services	Direct Services	Building Services, Repairs & Maintenance works billing processes	Advice & Consultancy	Final Report	N/A
Regeneration and Local Services	Direct Services	QMS (Quarterly Visit)	Advice & Consultancy	Final Report	N/A
Regeneration and Local Services	Direct Services	Facilities Management	Assurance	In Progress	
Regeneration and Local Services	Direct Services	Electrical Components - Procurement Card Expenditure (Follow Up)	Assurance	Final Report	Substantial
Regeneration and Local Services	Direct Services	Play Areas - Inspection Mechanisms and Charges to Parish & Town Councils	Assurance	Draft Report	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 MARCH 2017

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Regeneration and Local Services	Projects and Business Services	Garden Waste Collection	Assurance	Final Report	Substantial
Regeneration and Local Services	Projects and Business Services	Environmental Compliance	Advice & Consultancy	Planning and Preparation	
Regeneration and Local Services	Projects and Business Services	CRM System Implementation	Advice & Consultancy	Defer to 2017/18	
Regeneration and Local Services	Projects and Business Services	Customer Services Complaints	Assurance	Final Report	Substantial
Regeneration and Local Services	Culture and Sport	Leisure Centre - Core Financial Systems (Teesdale)	Assurance	Final Report	Substantial
Regeneration and Local Services	Culture and Sport	Leisure Works Governance Arrangements (Consett Leisure Centre)	Assurance	Cancelled	
Regeneration and Local Services	Culture and Sport	1Life Governance arrangements (Peterlee and Seaham Leisure Centres)	Assurance	Cancelled	
Regeneration and Local Services	Culture and Sport	Review of Leisure Centre Timesheet authorisation procedures (10 DCC centres)	Assurance	Final Report	Limited
Regeneration and Local Services	Culture and Sport	Shildon Leisure Centre - Follow Up	Assurance	Final Report	Substantial
Regeneration and Local Services	Culture and Sport	CLUK Income Share Agreement	Assurance	Final Report	Substantial
Regeneration and Local Services	Culture and Sport	County Durham Sport - Trust Arrangements	Advice & Consultancy	Final Report	N/A
Regeneration and Local Services	Culture and Sport	Stanley Bowls	Advice & Consultancy	Final Report	N/A
Regeneration and Local Services	Culture and Sport	Integrated Leisure Management System	Assurance	Final Report	Substantial
Regeneration and Local Services	Culture and Sport	DLI Museum	Assurance	Final Report	Substantial
Regeneration and Local Services	Culture and Sport	Gala Stage School	Assurance	Final Report	Substantial
Regeneration and Local Services	Culture and Sport	Picture House & Gala ticketing system arrangements	Advice & Consultancy	Cancelled	
Regeneration and Local Services	Culture and Sport	Locomotion - Follow Up	Assurance	Final Report	Substantial
Regeneration and Local Services	Technical Services	Civil Engineering Framework Sub £50K - Follow Up	Assurance	Final Report	Substantial
Regeneration and Local Services	Technical Services	Stores (Buildings & Highways)	Assurance	Final Report	Substantial
Regeneration and Local Services	Technical Services	Local Highways Maintenance Fund - Incentive Element	Advice & Consultancy	Final Report	N/A
Regeneration and Local Services	Planning and Assets	Carbon Reduction Commitment	Advice & Consultancy	Final Report	N/A
Regeneration and Local Services	Economic Development and Housing	West Rainton and Leamside CA	Advice & Consultancy	Final Report	N/A
Regeneration and Local Services	Technical Services	Local Transport Capital Block Funding for NECA	Grant	Final Report	N/A
Regeneration and Local Services	Transport and Contract Services	LSTF Capital Block UTMC	Grant	Final Report	N/A
Regeneration and Local Services	Transport and Contract Services	Local Growth Fund - Durham Station Gateway Scheme	Grant	Final Report	N/A
Regeneration and Local Services	Technical Services	Stores - Budgetary Control Arrangements	Advice & Consultancy	Draft Report	
Regeneration and Local Services	Planning and Assets	Asset Management - Follow Up	Assurance	Final Report	Moderate
Resources	Legal and Democratic Services	RIPA Officers Group	Advice & Consultancy	Complete	N/A
Resources	Legal and Democratic Services	Newco Trading Arrangements - Follow Up	Assurance	Draft Report	
Resources	Corporate Finance and HR	Medium Term Financial Plan	Key System	Planning and Preparation	
Resources	Corporate Finance and HR	Capital Accounting	Key System	In Progress	
Resources	Corporate Finance and HR	General Ledger	Key System	In Progress	
Resources	Corporate Finance and HR	Bank Reconciliation	Key System	Draft Report	
Resources	Corporate Finance and HR	Short Term Investments	Key System	Draft Report	
Resources	Corporate Finance and HR	Banking Arrangements	Assurance	In Progress	
Resources	Corporate Finance and HR	Tendering/Quotation arrangements	Assurance	Final Report	Substantial
Resources	Corporate Finance and HR	Contract Management	Assurance	Final Report	Moderate
Resources	Corporate Finance and HR	Off Contract Spend	Assurance	Draft Report	
Resources	Corporate Finance and HR	Procurement - Schools Commercial Focus	Advice & Consultancy	Planning and Preparation	
Resources	Corporate Finance and HR	Oracle Programme Board	Advice & Consultancy	Complete	N/A
Resources	Corporate Finance and HR	Oracle Project - Transactional Purchasing Improvement Group	Advice & Consultancy	Complete	N/A
Resources	Corporate Finance and HR	Oracle Project - Petty Cash and Payment Cards	Advice & Consultancy	Complete	N/A
Resources	Corporate Finance and HR	Service Reviews	Advice & Consultancy	Cancelled	
Resources	Corporate Finance and HR	Attendance Management Framework	Assurance	Final Report	Moderate
Resources	Corporate Finance and HR	Flexible Working Pilot arrangements	Advice & Consultancy	Complete	N/A
Resources	Corporate Finance and HR	Learning & Development	Advice & Consultancy	Cancelled	
Resources	Corporate Finance and HR	Health & Safety training requirements	Assurance	Final Report	Limited
Resources	Corporate Finance and HR	Employee Car Leasing Scheme	Advice & Consultancy	Complete	N/A

INTERNAL AUDIT PLAN PROGRESS AS AT 31 MARCH 2017

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Corporate Finance and HR	SLAs with schools working group	Advice & Consultancy	Complete	N/A
Resources	Corporate Finance and HR	Flexible Working - Variations to Contracts	Assurance	Defer to 2017/18	
Resources	Financial and HR Services	Agency	Assurance	Final Report	Limited
Resources	Financial and HR Services	Learning Disability Shared Lives Service - Financial Inspections	Assurance	Final Report	Limited
Resources	Financial and HR Services	Creditors - Feeder Systems	Key System	Final Report	Substantial
Resources	Financial and HR Services	Creditors - AHS	Key System	In Progress	
Resources	Financial and HR Services	Creditors - CYPS	Key System	Planning and Preparation	
Resources	Financial and HR Services	Creditors - Res, ReaL and TaP	Key System	Planning and Preparation	
Resources	Financial and HR Services	P2P Performance Improvement Project	Advice & Consultancy	Complete	N/A
Resources	Financial and HR Services	Payroll - General Ledger Uploads	Key System	Final Report	Moderate
Resources	Financial and HR Services	Payroll - Establishment and Core Data	Key System	Planning and Preparation	
Resources	Financial and HR Services	Payroll - Adjustments and System Access	Key System	Planning and Preparation	
Resources	Financial and HR Services	Payroll - Processing, Payments and System Parameters	Key System	Planning and Preparation	
Resources	Financial and HR Services	Business Rates - Reconciliations	Key System	Final Report	Substantial
Resources	Financial and HR Services	Business Rates - Recovery	Key System	Draft Report	
Resources	Financial and HR Services	Business Rates - Maintenance of Debt, Annual Updates and Pls	Key System	In Progress	
Resources	Financial and HR Services	Business Rates - Discounts and Exemptions, System Access and Declarations of Interest	Key System	In Progress	
Resources	Financial and HR Services	HB - Reconciliations	Key System	Final Report	Substantial
Resources	Financial and HR Services	HB - Welfare Assistance Scheme	Key System	Final Report	Substantial
Resources	Financial and HR Services	HB - Discretionary Housing Payments	Key System	Final Report	Substantial
Resources	Financial and HR Services	HB - New Claims and Change of Circumstances	Key System	In Progress	
Resources	Financial and HR Services	HB - Annual Updates and Pls	Key System	Planning and Preparation	
Resources	Financial and HR Services	HB - System Access and Declarations of Interest	Key System	Planning and Preparation	
Resources	Financial and HR Services	HB Sundry Debtor Overpayments	Key System	Cancelled	
Resources	Financial and HR Services	Enforcement, including bailiff arrangements	Assurance	Defer to 2017/18	
Resources	Financial and HR Services	Council Tax - Reconciliations	Key System	Final Report	Substantial
Resources	Financial and HR Services	Council Tax - Recovery	Key System	Draft Report	
Resources	Financial and HR Services	Council Tax - Maintenance of Debt, Annual Updates and Pls	Key System	In Progress	
Resources	Financial and HR Services	Council Tax - Discounts and Exemptions, System Access and Declarations of Interest	Key System	In Progress	
Resources	Financial and HR Services	Cash Collection - Weighbridges	Key System	Final Report	Moderate
Resources	Financial and HR Services	Cash Collection - Annand House	Key System	In Progress	
Resources	Financial and HR Services	Cash Collection - Music Service	Key System	In Progress	
Resources	Financial and HR Services	Cash Collection - Revenues	Key System	Planning and Preparation	
Resources	Financial and HR Services	Cash Collection - Wharton Park	Key System	Final Report	Moderate
Resources	Financial and HR Services	Cash Collection - County Hall Canteen	Key System	In Progress	
Resources	Financial and HR Services	Debtors	Key System	In Progress	
Resources	Financial and HR Services	Debtors Working Group	Advice & Consultancy	Complete	N/A
Resources	Financial and HR Services	Chapter Homes arrangements	Advice & Consultancy	Draft Report	
Resources	Financial and HR Services	FST - Caspar system	Advice & Consultancy	Final Report	N/A
Resources	Financial and HR Services	FST - Debit Card Cash Account	Assurance	Final Report	Limited
Resources	Financial and HR Services	FST - Court of Protection Bank Account	Assurance	Final Report	Moderate
Resources	Financial and HR Services	FST - Petty Cash and Imprests	Advice & Consultancy	In Progress	
Resources	Financial and HR Services	FST - Monitoring Visits	Advice & Consultancy	In Progress	
Resources	Financial and HR Services	FST - Service Users Property	Advice & Consultancy	Final Report	N/A
Resources	Financial and HR Services	FST - Creditor Payments to Providers	Advice & Consultancy	In Progress	
Resources	Financial and HR Services	FST - Invoicing of clients and debt management	Advice & Consultancy	In Progress	
Resources	Financial and HR Services	ResourceLink Migration Group	Advice & Consultancy	Complete	N/A
Resources	Financial and HR Services	Section 256 agreements	Grant certification	Final Report	N/A

**INTERNAL AUDIT PLAN PROGRESS AS AT 31 MARCH 2017**

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Financial and HR Services	Better Care Fund (Section 75)	Grant certification	Defer to 2017/18	
Resources	Information and Communication Techno	Information Security - Backup Procedures	Assurance	In Progress	
Resources	Information and Communication Techno	Information Security - Information Sharing	Assurance	Cancelled	
Resources	Information and Communication Techno	Mobile Computing	Assurance	Final Report	Limited
Resources	Information and Communication Techno	SQL Server	Assurance	Cancelled	
Resources	Information and Communication Techno	ICT Purchasing	Assurance	In Progress	
Resources	Information and Communication Techno	ICT Strategy	Assurance	Final Report	Substantial
Resources	Information and Communication Techno	Windows	Assurance	Final Report	Substantial
Resources	Information and Communication Techno	Asset Register	Assurance	Final Report	Limited
Resources	Corporate Finance and HR	Teachers Pension Fund	Advice & Consultancy	Planning and Preparation	
Resources	Financial and HR Services	Teaching Assistants	Advice & Consultancy	Final Report	N/A
Resources	Financial and HR Services	Prepaid cards	Advice & Consultancy	In Progress	
Resources	Financial and HR Services	Equal Pay Claims	Advice & Consultancy	Final Report	N/A
Resources	Internal Audit, Risk & Fraud	Insurance - Employers Liability Process	Advice & Consultancy	Final Report	N/A
Resources	Financial and HR Services	Teaching Assistants (2)	Advice & Consultancy	Final Report	N/A
Resources	Corporate Finance and HR	Apprenticeship Levy Implementation Group	Advice & Consultancy	Complete	N/A

**FINAL REPORTS ISSUED IN PERIOD ENDING 31 MARCH 2017**

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
<b>TRANSFORMATION AND PARTNERSHIPS (TaP)</b>		
Business Continuity Planning	Assurance review which focussed on an observation of a planned test of the ICT Business Continuity Plan.	Substantial
Community Grants	Assurance review of a sample of community grants.	Moderate
<b>ADULT AND HEALTH SERVICES (AHS)</b>		
Control of Infectious Diseases	<p>An Assurance review that considered the following risk associated with the control of food borne infectious diseases:</p> <ul style="list-style-type: none"> <li>)] Investigations have not been carried out promptly, competently, or in accordance with legislation and agreed protocols</li> </ul>	Substantial
<b>CHILDREN AND YOUNG PEOPLE'S SERVICES (CYPS)</b>		
Foster Carer Payments	<p>Assurance review that considered the effectiveness of the control framework in place for the management of the following risks associated with making Foster Carer Payments:</p> <ul style="list-style-type: none"> <li>)] The Fostering Panel is ineffective</li> <li>)] The Locality Admin Team is ineffective</li> <li>)] Incorrect payments are made to Foster Carers/payments are not made in time</li> <li>)] Overpayments are not promptly recovered</li> <li>)] Difficulty/inability to take recovery action against unpaid debts</li> <li>)] Employees do not have the skills to carry out their budget monitoring responsibilities/do not utilise the system as expected</li> <li>)] The authority does not comply with the Data Protection Act.</li> </ul>	Limited
Evergreen Primary School	Assurance review that followed up on actions taken by the School in responding to recommendations made within the report action plan. As a result the initial Assurance opinion of Limited was adjusted to Substantial.	Substantial
Troubled Families Programme – Milestones 3&4 of 4	Advice and Support provided during the claim submission window and certification of two claims covering the period October 2016 to March 2017.	N/A
Youth Employment Initiative - YEI	Assurance review that considered the effectiveness of the control framework in place for the verification of claims submitted by DurhamWorks Delivery Partners for European Structural and Investment Funds (ESIF).	Moderate
Youth Employment Initiative - YEI	Advice and Support provided in developing claim working instructions to cover the process to be followed by DurhamWorks Delivery Partners in submitting claims and being reimbursed for an agreed proportion of their costs, and for the checking and authorisation of claims by DurhamWorks.	N/A

<b>CHILDREN AND YOUNG PEOPLE'S SERVICES (CYPS) Contd.</b>		
National College for Teaching and Leadership (NCTL) Collaborative Fund Grant	Grant certification of a submission prepared by a County Durham Infant School.	N/A

<b>REGENERATION AND LOCAL SERVICES (ReaL)</b>		
Gala Stage School	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> <li>) Courses do not meet service/student expectations</li> <li>) Fees are unpaid</li> <li>) Cost of providing the stage school outweighs the income</li> <li>) Injury/abuse of students</li> <li>) Data protection breach</li> </ul>	Substantial
Customer Services Complaints	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> <li>) Complaints are not properly investigated</li> <li>) Complaints records are not properly logged, maintained and managed</li> <li>) Complaints handling performance is not known</li> <li>) Lack of staff awareness and skills regarding the complaints process</li> <li>) Lessons learned from complaints are not fed into service improvements</li> </ul>	Substantial
Shildon Leisure Centre – Core Systems and Investigation Follow Up	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> <li>) Income is recorded or processed inaccurately</li> <li>) Income is not received for bookings/courses.</li> <li>) Cash is held or transported insecurely</li> <li>) Unauthorised access to cash receipting system and till.</li> <li>) Gym membership income is not received</li> <li>) Expenditure is inappropriate.</li> <li>) Stocks are inappropriate or insecure.</li> </ul>	Substantial
Integrated Leisure Management System	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> <li>) Inadequate or incomplete information is entered into the system for new memberships</li> <li>) Incorrect fees/promotions are applied</li> <li>) Changes to membership information not actioned promptly</li> <li>) Gym &amp; Swimming facilities accessed by non-members</li> <li>) Membership information is accessed and/or changed through error or fraud</li> <li>) Direct debit extraction data is incorrect/incomplete</li> <li>) Inadequate action taken on non-payers</li> <li>) Financial and operational performance is not known.</li> </ul>	Substantial

<b>REGENERATION AND LOCAL SERVICES (ReaL) Contd.</b>		
Teesdale Leisure Centre	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> <li>) Income is processed inaccurately</li> <li>) Income is not received for bookings/courses</li> <li>) Cash is held or transported insecurely</li> <li>) Unauthorised access to cash receipting system and till.</li> <li>) Gym membership income is not received</li> <li>) Expenditure is inappropriate.</li> <li>) Stocks are inappropriate or insecure.</li> </ul>	Substantial
Durham Crematorium	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> <li>) Income is not accounted for/misappropriated</li> <li>) Significant risks are not being managed and the objectives are not being achieved</li> <li>) Ineffective budget monitoring processes are in place</li> <li>) Unauthorised payments are made</li> <li>) Employees are incorrectly paid</li> <li>) Equipment failure</li> <li>) Non-compliance with the Cremation Regulations 2008</li> <li>) Non-compliance with the Federation of British Cremation Authorities Code of Cremation Practice</li> <li>) Lack of experienced staff</li> <li>) Insufficient capacity to meet demand in the event of an epidemic, pandemic or major disaster</li> <li>) Stock / Assets are not accounted for / misappropriated</li> <li>) Damage / theft of equipment misappropriated</li> <li>) Ashes are disposed of incorrectly</li> </ul>	Substantial
Mountsett Crematorium	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> <li>) Income is not accounted for/misappropriated</li> <li>) Significant risks are not being managed and the objectives are not being achieved</li> <li>) Ineffective budget monitoring processes are in place</li> <li>) Unauthorised payments are made</li> <li>) Employees are incorrectly paid</li> <li>) Equipment failure</li> <li>) Non-compliance with the Cremation Regulations 2008</li> <li>) Non-compliance with the Federation of British Cremation Authorities Code of Cremation Practice</li> <li>) Lack of experienced staff</li> <li>) Insufficient capacity to meet demand in the event of an epidemic, pandemic or major disaster</li> <li>) Stock / Assets are not accounted for / misappropriated</li> <li>) Damage / theft of equipment misappropriated</li> <li>) Ashes are disposed of incorrectly</li> </ul>	Substantial
EU Structural Funds Programme	<p>Assurance review of the arrangements in place to mitigate against the risks of;</p> <ul style="list-style-type: none"> <li>) EU funding that supports the Council's priorities is not secured</li> <li>) DCC is committed to projects (a financial interest or providing match funding) that are not appropriate</li> </ul>	Moderate

<b>REGENERATION AND LOCAL SERVICES (Real) Contd.</b>		
Utility Bills	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> <li>) Contracts for energy are not the most favourable in terms of cost and service and/or expire without renewal/retendering</li> <li>) Carbon reduction targets are not achieved</li> <li>) Correct charges are not paid appropriately e.g. duplicate charges paid, not being paid within terms, bills are paid for properties DCC not responsible for and bills paid outside corporate control and / or are not received for known sites and are not paid</li> </ul>	Moderate
Fuel Stocks and Stores	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> <li>) The levels of fuel stocks are not known</li> <li>) Fuel is not purchased in line with contract procedure rules</li> <li>) Access to fuel stocks is not secure</li> <li>) Fuel equipment is defective</li> <li>) Fuel issue costs are incorrectly and inaccurately coded to services and vehicles</li> <li>) Fuel stocks do not achieve value for money</li> <li>) Fuel cards are misused due to fraud or a lack of awareness of protocol</li> <li>) Fuel cards are issued to users where there is no business benefit</li> <li>) Fuel card purchases costs are incorrectly and inaccurately coded to services and vehicles</li> <li>) Fuel cards do not achieve value for money</li> </ul>	Moderate
Concessionary Fares	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> <li>) Concessionary fare passes are granted to those that do not qualify</li> <li>) Incorrect charges are made or income is not received for replacement concessionary fare passes</li> <li>) Travel operators are not reimbursed the correct amount</li> <li>) Information received from the bus companies in relation to manually logged travel is inaccurate resulting in incorrect payments being made to operators</li> </ul>	Moderate
Asset Management (Follow Up)	Assurance review following up on the limited review from the previous quarter.	Moderate
Leisure Centre Timesheet Procedures	Assurance review of the arrangements in place to mitigate against the risk of payments to employees not reflecting actual hours worked.	Limited
Transport – Contractual Arrangements (Interim Follow Up)	Interim assurance review of the progress being made in the implementation of actions from the April 2016 report.	N/A (as further follow up to be carried out)
Local Highways Maintenance Fund – Incentive Element	Advice and consultancy review to enable the Section 151 Officer to certify the questionnaire on behalf of DCC.	N/A
Building Services, Repairs & Maintenance Works Billing Process	Advice and consultancy review of the effectiveness of the arrangements currently in operation for the Repairs & Maintenance Works Billing Processes and to evaluate options to improve these processes and the quality of service being provided to its customers.	N/A
Section 106	Advice and consultancy review of the arrangements around Section 106 agreements.	N/A
Stanley Bowls	Review of Accounts	N/A
Seaham Marina	Grant Certification	N/A

<b>RESOURCES</b>		
Windows Security	Assurance review of the arrangements in place to mitigate against the risks of;  <ul style="list-style-type: none"> <li>) Security weaknesses in the system</li> <li>) Loss of system or data</li> <li>) Breach of software agreement</li> </ul>	Substantial
Cash Collection - Weighbridges	Assurance review of the arrangements in place to mitigate against the risks of;  <ul style="list-style-type: none"> <li>) Non-compliance with financial regulations</li> <li>) Theft / Misappropriation</li> <li>) Inappropriate recovery action taken against a customer who has paid</li> <li>) Loss or theft of cash</li> <li>) Lack of corporate understanding, and / or buy in, of PCI requirements including loss / theft of card data</li> </ul>	Moderate
Cash Collection – Wharton Park	Assurance review of the arrangements in place to mitigate against the risks of;  <ul style="list-style-type: none"> <li>) Non-compliance with financial regulations</li> <li>) Theft / Misappropriation</li> <li>) Inappropriate recovery action taken against a customer who has paid</li> <li>) Loss or theft of cash</li> <li>) Lack of corporate understanding, and / or buy in, of PCI requirements including loss / theft of card data</li> </ul>	Moderate
Payroll – General Ledger Uploads	Assurance review of the arrangements in place to mitigate against the risks of;  <ul style="list-style-type: none"> <li>) Incorrect / invalid financial data is recorded in the General Ledger</li> <li>) Data is not recorded in a timely manner</li> </ul>	Moderate
Pension Fund – Benefit Calculations	Assurance review of the arrangements in place to mitigate against the risk of new and deferred benefits being calculated incorrectly, or payment being delayed.	Moderate
Pension Fund – Transfer Values In/Out	Assurance review of the arrangements in place to mitigate against the risks of;  <ul style="list-style-type: none"> <li>) Transfer values out calculations are inaccurate and not carried out promptly</li> <li>) Transfer values in are not received or not accurately accounted for in a timely manner</li> </ul>	Moderate
Financial Services Support – Court of Protection Bank Accounts	Assurance review of the arrangements in place to mitigate against the risk of service users' income not being received or their payments not being made correctly.	Moderate
Mobile Computing	Assurance review of the arrangements in place to mitigate against the risks of;  <ul style="list-style-type: none"> <li>) Data leakage and disclosure of confidential data due to device loss, device theft, theft of data from devices or interception of data in transit, including wireless connections</li> <li>) Malware propagation</li> <li>) Incorrect application of corporate security policies</li> </ul>	Limited

<b>RESOURCES Contd.</b>		
ICT Asset Register	Assurance review of the arrangements in place to mitigate against the risk of assets not being identified, recorded and monitored throughout their life cycle.	Limited
Financial Services Support – Service Users' Property	Advice and consultancy review on the management arrangements of service users' property.	N/A
Insurance – Employers Liability Process	Advice and consultancy review evaluating the employers liability claims process, considering current and potential alternative arrangements.	N/A

# Progress on the Implementation of Audit Recommendations

	Number of Actions Raised	Actions Due	Actions Implemented			Overdue Actions by original target date	Number of Actions where the original target has been revised	Overdue Actions following a revised target date	Total Revised Actions Due	Revised Total Recommendations Overdue
			Due	Not Yet Due	Total					
<b>TRANSFORMATION AND PARTNERSHIPS (TAP)</b>										
<b>2015/16</b>										
High	0	0	0	0	0	0	0	0	0	0
Medium	8	8	8	0	8	0	0	0	8	0
<b>Total</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>0</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8</b>	<b>0</b>
<b>2016/17</b>										
High	0	0	0	0	0	0	0	0	0	0
Medium	26	22	22	0	22	0	0	0	22	0
<b>Total</b>	<b>26</b>	<b>22</b>	<b>22</b>	<b>0</b>	<b>22</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>22</b>	<b>0</b>
<b>Overall Total</b>	<b>34</b>	<b>30</b>	<b>30</b>	<b>0</b>	<b>30</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>30</b>	<b>0</b>
<b>ADULT AND HEALTH SERVICES (AHS)</b>										
<b>2015 / 2016</b>										
High	1	1	1	0	1	0	0	0	1	0
Medium	112	112	112	0	112	0	0	0	112	0
<b>Total</b>	<b>113</b>	<b>113</b>	<b>113</b>	<b>0</b>	<b>113</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>113</b>	<b>0</b>
<b>2016/17</b>										
High	7	6	5	0	5	1	1	0	5	0
Medium	47	41	41	0	41	0	0	0	41	0
<b>Total</b>	<b>54</b>	<b>47</b>	<b>46</b>	<b>0</b>	<b>46</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>46</b>	<b>0</b>
<b>Overall Total</b>	<b>167</b>	<b>160</b>	<b>159</b>	<b>0</b>	<b>159</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>159</b>	<b>0</b>
<b>CHILDREN AND YOUNG PEOPLE'S SERVICES (CYPS)</b>										
<b>2015 / 2016</b>										
High	0	0	0	0	0	0	0	0	0	0
Medium	39	39	39	0	39	0	0	0	39	0
<b>Total</b>	<b>39</b>	<b>39</b>	<b>39</b>	<b>0</b>	<b>39</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>39</b>	<b>0</b>
<b>2016/17</b>										
High	1	1	1	0	1	0	0	0	1	0
Medium	53	49	48	0	48	1	1	0	48	0
<b>Total</b>	<b>54</b>	<b>50</b>	<b>49</b>	<b>0</b>	<b>49</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>49</b>	<b>0</b>
<b>Overall Total</b>	<b>93</b>	<b>89</b>	<b>88</b>	<b>0</b>	<b>88</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>88</b>	<b>0</b>
<b>REGENERATION AND LOCAL SERVICES (REAL)</b>										
<b>2013/2014</b>										
High	14	14	14	0	14	0	0	0	14	0
Medium	78	78	77	0	77	1	1	0	77	0
<b>Total</b>	<b>92</b>	<b>92</b>	<b>91</b>	<b>0</b>	<b>91</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>91</b>	<b>0</b>
<b>2014 / 2015</b>										
High	4	4	4	0	4	0	0	0	4	0
Medium	60	60	60	0	60	0	0	0	60	0
<b>Total</b>	<b>64</b>	<b>64</b>	<b>64</b>	<b>0</b>	<b>64</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>64</b>	<b>0</b>
<b>2015/2016</b>										
High	7	7	6	0	6	1	1	0	6	0
Medium	115	115	105	0	105	10	10	0	105	0
<b>Total</b>	<b>122</b>	<b>122</b>	<b>111</b>	<b>0</b>	<b>111</b>	<b>11</b>	<b>11</b>	<b>0</b>	<b>111</b>	<b>0</b>
<b>2016/17</b>										
High	12	9	7	0	7	2	2	0	7	0
Medium	193	151	136	0	136	15	15	0	136	0
<b>Total</b>	<b>205</b>	<b>160</b>	<b>143</b>	<b>0</b>	<b>143</b>	<b>17</b>	<b>17</b>	<b>0</b>	<b>143</b>	<b>0</b>
<b>Overall Total</b>	<b>483</b>	<b>438</b>	<b>409</b>	<b>0</b>	<b>409</b>	<b>29</b>	<b>29</b>	<b>0</b>	<b>409</b>	<b>0</b>
<b>RESOURCES</b>										
<b>2014 / 2015</b>										
High	7	7	7	0	7	0	0	0	7	0
Medium	134	134	132	0	132	2	2	0	132	0
<b>Total</b>	<b>141</b>	<b>141</b>	<b>139</b>	<b>0</b>	<b>139</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>139</b>	<b>0</b>
<b>2015 / 2016</b>										
High	3	3	3	0	3	0	0	0	3	0
Medium	123	122	119	0	119	3	3	0	119	0
<b>Total</b>	<b>126</b>	<b>125</b>	<b>122</b>	<b>0</b>	<b>122</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>122</b>	<b>0</b>
<b>2016 / 2017</b>										
High	18	12	12	0	12	0	0	0	12	0
Medium	109	85	81	0	81	4	4	0	81	0
<b>Total</b>	<b>127</b>	<b>97</b>	<b>93</b>	<b>0</b>	<b>93</b>	<b>4</b>	<b>4</b>	<b>0</b>	<b>93</b>	<b>0</b>
<b>Overall Total</b>	<b>394</b>	<b>363</b>	<b>354</b>	<b>0</b>	<b>354</b>	<b>9</b>	<b>9</b>	<b>0</b>	<b>354</b>	<b>0</b>
<b>TOTAL COUNCIL</b>										
<b>2013 / 2014</b>										
High	14	14	14	0	14	0	0	0	14	0
Medium	78	78	77	0	77	1	1	0	77	0
<b>Total</b>	<b>92</b>	<b>92</b>	<b>91</b>	<b>0</b>	<b>91</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>91</b>	<b>0</b>
<b>2014 / 2015</b>										
High	11	11	11	0	11	0	0	0	11	0
Medium	194	194	192	0	192	2	2	0	192	0
<b>Total</b>	<b>205</b>	<b>205</b>	<b>203</b>	<b>0</b>	<b>203</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>203</b>	<b>0</b>
<b>2015 / 2016</b>										
High	11	11	10	0	10	1	1	0	10	0
Medium	397	396	383	0	383	13	13	0	383	0
<b>Total</b>	<b>408</b>	<b>407</b>	<b>393</b>	<b>0</b>	<b>393</b>	<b>14</b>	<b>14</b>	<b>0</b>	<b>393</b>	<b>0</b>
<b>2016 / 2017</b>										
High	38	28	25	0	25	3	3	0	25	0
Medium	428	348	328	0	328	20	20	0	328	0
<b>Total</b>	<b>466</b>	<b>376</b>	<b>353</b>	<b>0</b>	<b>353</b>	<b>23</b>	<b>23</b>	<b>0</b>	<b>353</b>	<b>0</b>
<b>OVERALL TOTAL</b>	<b>1171</b>	<b>1080</b>	<b>1040</b>	<b>0</b>	<b>1040</b>	<b>40</b>	<b>40</b>	<b>0</b>	<b>1040</b>	<b>0</b>

## Performance Indicators as at 31 March 2017

<b>Efficiency</b>			
<b>Objective: To provide maximum assurance to inform the annual audit opinion</b>			
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>	<b>Actual</b>
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage	90% Annually	102% at 31 March 2017
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview	90% (Quarterly)	93% (152 out of 164)
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response	95% (Quarterly)	98% (154 out of 157)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)	100%
<b>Quality</b>			
<b>Objective: To ensure that the service is effective and adding value</b>			
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>	
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Annually)	100%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service satisfactory or above (3 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)	100% - Av score 4.5
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	84%
<b>Cost</b>			
<b>Objective: To ensure that the service is cost effective</b>			
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>	
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average (Annually)	Yes (2015/16 exercise) £226 cost per chargeable audit day

## Audit Committee

28 June 2017



## Annual Review of the System of Internal Audit 2016 / 2017

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### Report of Paul Bradley, 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 for 2016/2017.

#### Background

- 2 The requirement for an Internal Audit function for local authorities is within section 151 of the Local Government Act 1972 and authority has been delegated to the Corporate Director of Resources to fulfil this function. Part 2, Regulation 5 of the Accounts and Audit Regulations 2015 requires that "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."
- 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.

#### Current Arrangements for Internal Audit

- 5 A dedicated Internal Audit Service forms part of the system of Internal Audit in the Council. The Service is part 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 and works closely with others across the Council tasked with governance, assurance and risk management. Whilst part of a wider service, it retains its own identity as Internal Audit for the Council.
- 6 The Chief Internal Auditor and Corporate Fraud Manager reports directly to the Corporate Director of Resources but also has direct access to the Chief Executive and the members of the Audit Committee.

- 7 At the start of 2016/17 the team comprised of 19 approved posts (17.35FTE) 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, Durham and Darlington Fire Authority and Peterlee Town Council.
- 8 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 in context with the organisation and defines the principles of how the service operates. The TOR provides appropriate arrangements to ensure that the Service 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) released are reflected in the Internal Audit Charter.
- 9 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 has a Corporate Fraud within the Service.
- 10 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

- 11 During 2016/17 there was no staff turnover. One employee left the Council on Voluntary Redundancy on 31 March 2017. Therefore, the 20 audit employees were available for audit work during the year.
- 12 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.

- 13 The audit plan was delivered at the year end, with a minimum need to carry forward audit work from 2016/17 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

- 14 The structure of the service reflects the configuration of the Council at Corporate Director level and allows for close client liaison during the year. The structure will be aligned slightly early in 2017/18 to reflect the new Senior Management Structure which is due to be in place on 01 June 2017. It is the intention that auditors continue to develop knowledge and client relationships. Where possible auditors will continue to work with similar service groupings to that of 2016/17 in order to offer an element of continuity for clients with whom we have built constructive relationships. We consider this approach continues to be successful in building a better understanding of the Council and its business needs and objectives and the service continues to receive positive feedback from management on this approach. There is a need for employee rotation for development purposes and to maintain objectivity, which will be continually reviewed.

#### Internal Audit and Risk Management

- 15 The service 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

- 16 The training and development within the Division encourages development through the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Internal Auditors (IIA), the Association of Accounting Technicians (AAT) and continuing professional development.
- 17 During the year one auditor has progressed their IIA studies and another with their AAT studies. All other employees hold at least one audit qualification. For Continuous Professional Development (CPD) all employees have 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.

- 18 The following information about qualifications and experience of employees available for audit work demonstrates the experience and qualification mix.

Experience 2016/2017

<b>Auditing Experience</b>	<b>No</b>	<b>%</b>	<b>Local Government Auditing</b>	<b>%</b>
Up to 1 Year	0	0	0	0
1 to 2 Years	0	0	0	0
2 to 5 Years	1	5	1	5
5 to 10 Years	5	25	5	25
Over 10 Years	14	70	14	70
<b>Total Employees</b>	<b>20</b>	<b>100</b>	<b>20</b>	<b>100</b>

- 19 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.
- 20 At 31 March 2016 the Service has no vacant posts. This is reflected in the audit plan proposed for 2017/18.

**Conformance with UK Public Sector Internal Audit Standards (PSIAS)**

- 21 Internal Audit completed a self-assessment against the key elements of the PSIAS. For 2016/17 this demonstrated that the Section was conforming with the Code's requirements. This self-assessment has been based on the PSIAS that were in place during 2016/17 and future assessments both external and self-assessments will be conducted against the new PSIAS which were brought into effect on 01 April 2017.
- 22 All employees are introduced to the ethics requirements (as described in PSIAS) in relation to the professional role of an auditor. While the basis of this remains the same as in previous years employees are required to read and sign a document confirming they understand the ethics and behaviour requirements. All employees provide an annual declaration of interests for consideration to enable management to ensure that there was sufficient information to address any potential conflicts of interest which arise during audit activities. Employees are obliged to raise any conflicts or issues with management during the year. Records are maintained for this.
- 23 Quality of audit work was actively managed in year and the achievement of quality standards enabled the Chief Internal Auditor and Corporate Fraud Manager to confirm work has been completed in conformance with PSIAS. Individual audits have an agreed and clear scope; activity is reviewed and assessed for its effectiveness and quality during and after completion of work; and customer feedback is received from post audit questionnaires. An annual report for Corporate Directors was produced for 2015/16.

- 24 Liaison with the External Auditor was productive and audit plans were coordinated within this process. The two services continue to share information and to use this to inform risk assessments and direct audit activity.

### **Ensuring the Effective Prioritisation of Internal Audit Work**

- 25 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.
- 26 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.
- 27 It is considered that the 2016/17 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. An emergent Internal Audit Plan was provided to the Audit Committee in February 2017 and the final internal Audit Plan for 2017/18 will be presented to Audit Committee in June 2017. This has been delayed slightly due to the local election process.

### **Performance Measures**

- 28 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.
- 29 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.

30 The key performance measures for the Section over the last 12 months are:

KPI	Measure of Assessment	Target	Actual as at 31 March 2017
Planned audits completed	% of plan achieved.	90%	102%
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure	90%	93%
Timeliness of Final Reports	% of final reports issued within 14 Calendar days of receipt of management response	95%	98%
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%
Customers providing feedback responses	% of customers returning satisfaction returns	70%	84%

31 There continues to be a positive response to customer satisfaction returns (up from 77% in 2015/16) and positive feedback on a number of specific assignments, which is reflected in the customer satisfaction questionnaires.

32 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 been consistent with previous years with all reports being issued within the set timescales. Delays are largely consigned to school reports where clients are unavailable due to holidays etc.

33 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

34 The process for monitoring implementation of recommendations continues 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.

35 Internal Audit continues to engage with the Council's quarterly reporting process and deliver regular quarterly reports to Service Grouping Management Teams and to the Corporate Management Team. This process has ensured that time is targeted on key issues and that appropriate support and advice is offered at the right time.

- 36 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 2016/2017.

### **Audit Committee**

- 37 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 2016/2017.
- 38 Audit Committee request reports from management in response to issues raised in within Internal 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**

- 39 The service 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 service is on track to deliver a comprehensive plan for the year and it is considered that it 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**

- 40 Members are asked to note the findings and conclusions of the 2016/2017 review of the effectiveness of the system of Internal Audit contained within this report.

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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.

**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** – Compliance with Accounts and Audit Regulations 2015.

**Audit Committee**

**28 June 2017**



**Annual Internal Audit Opinion and Report  
2016/2017**

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**Report of Paul Bradley, Chief Internal Auditor and Corporate Fraud  
Manager**

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**Purpose of the Report**

- 1 This report provides members with the Chief Internal Auditor and Corporate Fraud Manager's assurance opinion on the adequacy and effectiveness of the Council's internal control environment.
- 2 The report also presents the Annual Internal Audit Report for 2016/2017.

**Background**

- 3 The Public Sector Internal Audit Standards (PSIAS) established in 2013 are the agreed professional standards for internal audit in local government. PSIAS was the Code under which the Internal Audit Service operated during 2015/2016. It sets out the requirement for the Chief Internal Auditor and Corporate Fraud Manager ("Chief Audit Executive") to report to officers and the Audit Committee ("The Board") to help inform their opinions on the effectiveness of the Internal Control environment in operation within the Council.
- 4 The Annual Internal Audit Report should therefore be considered in the context of fulfilling the above requirement.
- 5 The annual internal audit opinion contributes to the completion of the Annual Governance Statement (AGS). It is specifically timed to be considered as part of the Council's annual review of governance and internal control.
- 6 Internal Audit therefore has a professional duty to provide an unbiased and objective view of the Council's Internal Control environment. Internal Audit is independent of the processes that it evaluates and as such reports to Corporate Management Team and the Audit Committee.
- 7 No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.

- 8 Based on the work undertaken during the year, Internal Audit is able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2016/2017. There are no issues of that would qualify this opinion.
- 9 This moderate opinion provides assurance that there is a sound system of control in place however there are some weaknesses and evidence of ineffective controls. Given the constant extent of change the Council continues to face, the reduction in resources and the ever increasing diverse nature of the Internal Audit Plan this assurance opinion should be regarded as positive. This is supported by the improvements made over recent years particularly within key financial systems where significant improvements have been made since the Council's formation following Local Government Reorganisation and whilst further work is required this is actively being pursued through relevant working groups also supported by Internal Audit.
- 10 There are no adverse implications for the Authority's Annual Governance Statement arising from any of the work that Internal Audit has undertaken in 2016/2017. All of the risks raised within Internal Audit reports have been accepted. Internal Audit's recommendations, or alternative proposed actions made by Management in response to the risk issues, have been agreed to be implemented. Full implementation of the agreed actions will realise the benefits of the control improvements detailed in each individual audit report. Internal Audit continues to follow up the implementation of its recommendations, or any agreed alternative actions, with the relevant responsible officers, as soon as is practically possible, after the target implementation dates. Again it should be noted the implementation rate (96%) and agreement to recommendation that the service is making (100%) is positive. Progress on the implementation of audit recommendations will continue to be reported through CMT and the Audit Committee in 2017/2018.

### **Recommendations and Reasons**

- 11 Members are asked to note 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 2016/2017.

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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** – There are no direct financial implications arising for the Council as a result of this report, although we aim through planning arrangements to review core systems in operation and ensure through our broad programme of work that the Council has made safe and efficient arrangements for the proper administration of its financial affairs.

**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** – Compliance with Public Sector Internal Audit Standards and the Accounts and Audit Regulations 2015

**INTERNAL AUDIT**

**ANNUAL REPORT**

**2016 / 2017**

*Altogether better*



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2. Service Provided and Audit Methodology
3. Types of Audit Work Carried Out
4. Audit Quality Assurance Framework
5. Summary of Work Carried Out
6. Key Areas for Opinion
7. Audit Opinion Statement

## **APPENDICES**

Appendix A: Performance Indicators

Appendix B: Key Advice and Consultancy Work

Appendix C: Control Issues, Limited Assurance Opinions and Fraud and Irregularity

Appendix D: Assurance Opinion Methodology

Appendix E: Summary of Assurance Work 2016/2017

## **1. Introduction and Background**

- 1.1 This report summarises the work carried out by Internal Audit during the financial year 2016/17 and provides assurance on the effectiveness of the Council's control environment, risk management and corporate governance arrangements in place during the year.
- 1.2 The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972 which requires Local Authorities 'make arrangements for the proper administration of their financial affairs and ensure that one of its officers has responsibility for the administration of those affairs'. Authority has been delegated to the Corporate Director of Resources to fulfil this function.
- 1.3 Part 2, Regulation 5 of the Accounts and Audit Regulations 2015 requires that "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".
- 1.4 From 1 April 2013 Public Sector Internal Audit Standards (PSIAS) define the proper internal control practices alongside the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note.
- 1.5 This report fulfils the requirement of PSIAS 2450 for the Chief Internal Auditor and Corporate Fraud Manager ("Chief Audit Executive") to provide an annual report to the Audit Committee ("The Board") timed to support the Annual Governance Statement (AGS).
- 1.6 The report sets out:
  - ) The annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment);
  - ) A summary of the audit work carried out from which the opinion is derived;
  - ) Details of the quality assurance arrangements in place during 2016/2017 which incorporates the outcomes of the last annual review of the effectiveness of Internal Audit carried out by the External Assessor in July 2016 and the self-assessment completed in June 2017 to ensure conformance with the PSIAS.

## **2. Service Provided and Audit Methodology**

- 2.1 Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
- 2.2 The primary objective of Internal Audit is to provide an independent and objective opinion on the Council's control environment.
- 2.3 The Internal Audit Charter, agreed by Corporate Management Team and the Audit Committee, establishes and defines the terms of reference and audit strategy for how the service is to be delivered. Audit services are also provided to a number of external clients including Durham's Police Crime and Victims Commissioner and Durham Constabulary, Durham and Darlington Fire and Rescue Authority, Peterlee Town Council and the Durham and Mountsett Crematoria Joint Committees. The service is also responsible for the internal audit of the Durham County Pension Fund.
- 2.4 The agreed audit strategy to provide independent assurance, is summarised as follows:
- ) To work in consultation with senior management teams and other providers of assurance to prepare strategic and annual audit plans.
  - ) To carry out planned assurance reviews of the effectiveness of the management of operational risks in all key service activities/systems over a rolling five year programme (Strategic Audit Plan).
  - ) To carry out assurance reviews of the management of strategic risks where the effective management of the risk is heavily dependent on identified controls.
  - ) To carry out annual reviews of key risks where a high level of assurance is required to demonstrate the continuous effectiveness of internal controls, for example those associated with key financial and non-financial systems.
  - ) To use a Control Risk Assessment (CRA) methodology to focus audit resources on providing assurance on key controls where there is little or no other independent assurance on their adequacy or effectiveness.

### **3. Types of Audit Work Carried Out in 2016/2017**

#### ***Assurance Reviews***

- 3.1 Assurance reviews are those incorporated into annual audit plans from strategic plans where the CRA methodology is to be applied. They also include service requests to provide assurance on more specific risks within a particular service activity.
- 3.2 On completion of each assurance review an opinion on the adequacy and / or the effectiveness of the control framework in place is provided to inform the annual audit opinion.
- 3.3 The audit methodology for arriving at audit opinions on individual assurance reviews is attached at Appendix D.

#### ***Advice and Consultancy Work***

- 3.4 In addition to planned assurance reviews, provision is also made in annual audit plans to support service managers by undertaking advice and consultancy type work. The outcomes from this work can also provide assurance on the control framework even though an assurance opinion is not provided on the completion of this work.

#### ***Counter Fraud Work***

- 3.5 Provision is made in annual audit plans to support service managers at an operational level to mitigate the strategic risk of fraud and corruption. Control weaknesses identified when fraud is suspected or proven also impacts on the overall opinion on the adequacy and effectiveness of the Council's internal control system.

#### ***Grant Certification***

- 3.6 Some provision is also made in internal audit plans for the certification of external grant claims where required. Again, the outcomes of this work can help inform the annual opinion on the control environment.

#### 4. Audit Quality Assurance Framework

- 4.1 The Internal Audit Charter sets out the performance and quality framework for the service. This reflects the requirements of the PSIAS.
- 4.2 Key elements of the quality assurance framework operating during 2016/2017 include:
- ) Independent quality reviews undertaken by audit managers as a matter of routine and periodically by the Chief Internal Auditor and Corporate Fraud Manager to ensure consistent application of agreed processes and procedures and to ensure expected quality standards are maintained.
  - ) Key contacts, determined by appropriate Heads of Service, agree the Terms of Reference for each audit review and are able to challenge the findings and content of draft reports prior to them being finalised.
- 4.3 A summary of our performance against agreed indicators is provided in Appendix A.
- 4.4 As at 31 March 2017, the % of planned work completed indicated that the service has achieved its target to complete 90% of the audit plan in terms of productive days.
- 4.5 The PSIAS requires that the Council completes an annual review of the effectiveness of Internal Audit. The outcome is reported to Audit Committee. This was last completed in the form of an external assessment in July 2016 and a self-assessment in June 2017.
- 4.6 As per PSIAS requirements, an External Assessment must be completed once every five years. An External Assessment therefore has been performed by Newcastle City Council in April 2016 and reported to management and the Audit Committee in July 2016. The assessment involved an evaluation against the requirements of PSIAS, a sample review of audit files and working papers and an interview with the Corporate Director, Resources. The external assessment concluded "Durham County Council's Internal Audit Service **conforms** to the requirements of the Public Sector Internal Audit Standards".

## **5. Improvements made during the year to improve the quality and effectiveness of the service**

5.1 The main areas of improvement which were identified through the last annual review of the effectiveness of the service related to a number of areas of PSIAS compliance and progress has been made in all areas. The areas highlighted in the last review and the progress made are highlighted below:

) PSIAS Ref 1130 – Audit Responsibilities are to be rotated periodically.

On 1 April 2016 audit responsibilities were reallocated across all at Principal Auditor and Senior Auditor level. Work is regularly allocated on the basis to ensure individual auditors gain experience in a variety of areas in order to maintain their training and development. The rotation of responsibilities occurs annually.

5.2 The service has the a qualified IT auditor in the service who has been in post since September 2015.

5.3 A specialist Procurement and Contract Auditor has been in post from January 2014. This has added value to both the service and to Corporate Procurement who have found their experience and knowledge to be beneficial in developing improvements across the Council in matter relating to procurement.

5.4 The Corporate Fraud Team influences pro-active fraud work and promotes the counter fraud strategy across the organisation.

5.5 In addition one employee will be sitting their final Institute of Internal Auditors (IIA) papers during 2017.

## **6. Summary of Audit Work Carried Out**

### ***Assurance Work***

6.1 Our work programme for the financial year 2016/2017 included work carried out between April 2016 and March 2017.

6.2 A summary of assurance work completed during the year is attached at Appendix E.

## ***Advice and Consultancy Work***

- 6.3 All planned reviews are designed to add value as they provide independent assurance, through evaluation and challenge, on the adequacy and effectiveness of arrangements in place to manage risks and the development of controls. This evaluation and challenge supports the effective and efficient use of resources and value for money (VFM).
- 6.4 Through our advice and consultancy work we are able to add value proactively and reactively.
- 6.5 Reactive work involves positively responding to ad-hoc requests for advice and reviews added to the audit plan to address new or emerging issues and risks. It also includes responding to potential fraud and irregularities and we ensure that all such incidents are properly investigated and that appropriate action is taken by managers, whether or not fraud or malpractice is proven. This work is delivered from the contingency provision within the audit plan.
- 6.6 A summary of key advice and consultancy work completed during the year is attached at Appendix B.

## **7. Key Areas for Opinion**

- 7.1 The three main areas of the control environment considered when determining our assurance opinion are:
  - ) Financial Management
  - ) Risk Management
  - ) Corporate Governance
- 7.2 Assurance has been provided on some aspects of all key financial systems during the year. It is acknowledged that good progress continues to be made during the year in improving the operational efficiency and performance of key financial systems. However, testing of the control environment in operation during the year still highlighted some weaknesses in controls.
- 7.3 Independent assurance on the effectiveness of the Council's risk management arrangements has been provided by consideration of the adequacy and effectiveness of operational risk management through the risk based audit approach and the CRA methodology applied to individual audit assignments. This in turn provides some assurance on the management of related strategic risks.

- 7.4 A number of audits have been carried out during the year to provide independent assurance on the effectiveness of specific key corporate governance arrangements. In addition, compliance with relevant key council policies and procedures has also been considered as part of the risk based approach to the audit service related planned assurance reviews.
- 7.5 Key issues arising from audit work where controls have improved or further improvements have been identified are summarised in Appendix C.
- 7.6 The implementation of audit recommendations made to improve the control environment helps to embed effective risk management and strengthen the effectiveness of the Council's corporate governance arrangements. Details of progress made on the implementation of all High and Medium ranking recommendations are reported quarterly to Corporate Directors and the Audit Committee. A summary of progress on actions due at the 31 March 2017 is given below:

<b>Service Grouping</b>	<b>Number of Actions Due to be Implemented</b>	<b>Number of Actions Actually Implemented</b>	<b>Actions Overdue by Agreed Original Target Date</b>	<b>Actions with an Agreed Revised Target Date</b>	<b>Actions Overdue by Revised Target Date</b>
Adult and Health Services (AHS)	160	159	1	1	0
Children and Young People's Service (CYPS)	89	88	1	1	0
Regeneration and Local Services (REAL)	438	409	29	29	0
Resources (RES)	363	354	9	9	0
Transformation and Partnerships (TAP)	30	30	0	0	0
<b>TOTAL</b>	<b>1,080</b>	<b>1,040</b>	<b>40</b>	<b>40</b>	<b>0</b>

- 7.7 The % of audit recommendations implemented by service managers within agreed target dates continues to improve and the Council out performs many of its benchmarked comparators. This statistic stands at 96% before revised targets are incorporated, this increases to 100% if revised to include revised target dates.

## 8. Audit Opinion Statement

- 8.1 The Council has responsibility for maintaining a sound system of internal control that supports the achievement of its objectives.
- 8.2 Internal Audit is required to provide an opinion on the Council's risk management, control and governance process.
- 8.3 In giving this opinion it should be noted that assurance can never be absolute and therefore only reasonable assurance can be provided that there are no major weaknesses in these processes.
- 8.4 In assessing the level of assurance to be given, we based our opinion on:
- ) All of the audit work undertaken during the year.
  - ) Follow up actions on audit recommendations.
  - ) Any significant recommendations not accepted by management and the consequent risk.
  - ) The effects of any significant changes in the Council's systems.
  - ) Matters arising from previous reports to the Audit Committee.
  - ) Any limitations which may have been placed on the scope of the internal audit.
  - ) The extent to which resource constraints may impinge on internal audit's ability to meet the full audit needs of the Council.
  - ) The outcomes of the audit quality assurance process.
  - ) The reliability of other sources of assurance considering when determining the scope of audit reviews.
- 8.5 We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's system of internal control. Based on the work undertaken, we are able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2016/2017. There are no qualifications to this opinion. This moderate opinion ranking provides assurance that there is a sound system of control in place, but there are some weaknesses and evidence of non-compliance with controls or ineffective controls.

8.6 This overall 'moderate' opinion reflects the widening scope of internal audit, with new audit areas being undertaken each year as part of the agreed audit strategy to review key service activities over a five year rolling programme. Over the last five years the number of 'Substantial' assurance opinions continues to increase as illustrated in the table below. It is important to recognise however in many cases these audits are not performed annually unless they are key systems both financial and non-financial.

<b>Assurance Level</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Full	4	7	5	N/A	N/A	N/A
Substantial	14	23	37	40	65	53
Moderate	34	40	60	51	60	39
Limited	10	15	10	12	6	16
<b>Total</b>	<b>62</b>	<b>85</b>	<b>112</b>	<b>103</b>	<b>131</b>	<b>108</b>

8.7 The adequacy and effectiveness of key financial controls is a major consideration in our opinion. Whilst good progress continues to be made during the year, including improvements to a number of key financial systems which has provided a better operational platform for effective financial risk management, there has been however some key controls not operating effectively in 2016/2017 hence the 'moderate' opinion on the financial control environment as the last five years. The expectation is that the financial control environment will continue to improve as new systems and processes become more robust and the recently refreshed and enhanced financial management standards become embedded. Our findings suggest that policies and procedures are now in place across most key financial systems however a number of our recommendations continue to relate to non-compliance where the system owner is requested to send reminders to employees or offer refresher training as appropriate.

8.8 It is especially pleasing to note that service groupings are valuing the work of Internal Audit and particularly around involving us in advice and consultancy work where major systems or processes are being implemented or amended. This is illustrated in the continuing work around key financial systems, e.g. Creditors, Debtors and Payroll. It is therefore important that service groupings continue to engage Internal Audit in work of this nature where controls and processes can be evaluated before implementation.

- 8.9 All audits with a limited assurance opinion have disclosed at least one high risk finding or a number of medium priority recommendations and these are subject to a follow up audit six months after the final report has been issued and are reported to Audit Committee on an exception basis. It should be noted that, within the 16 limited assurance opinions provided in 2016/17, two reviews have since been followed up and finalised, i.e. High Etherley Children's Home and Asset Management, and have had their assurance opinion re-assessed as 'Substantial' and 'Moderate' respectively.
- 8.10 Where Internal Audit has identified areas for improvement, recommendations are made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management. Whilst the % of actions implemented within target dates is high, in many cases there is a time gap between a control weakness being reported and the date determined by management for when the action can practically and realistically be implemented. Consequently, the added assurance provided on implementation cannot always be recognised and evidenced in arriving at our overall annual assurance opinion. Work is ongoing with management with regard to timely and realistic implementation dates for actions being agreed.

## PERFORMANCE INDICATORS

## Appendix A

<b>Efficiency</b>			
<b>Objective: to provide maximum assurance to inform the annual audit opinion</b>			
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target (Frequency of Measurement)</b>	<b>Actual as at 31/03/2017</b>
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage	90% (Annually)	102%
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview	90% (Quarterly)	93% (152 out of 164)
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response	95% (Quarterly)	98% (154 out of 157)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)	100%
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	100%
<b>Quality</b>			
<b>Objective: To ensure that the service is effective and adding value</b>			
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target (Frequency of Measurement)</b>	<b>Actual as at 31/03/2017</b>
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Annually)	100%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service satisfactory or above (3 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)	100% - Average score 4.5
Customers providing feedback responses	% of Customer returning satisfaction returns	70% (Quarterly)	84%
<b>Cost</b>			
<b>Objective: To ensure the service is cost effective</b>			
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target (Frequency of Measurement)</b>	<b>Actual as at 31/03/2017</b>
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average	Yes (205/16 exercise) £226 cost per chargeable audit day (reported to Committee September 2016)

## **KEY ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2016/2017**

### **Information Governance**

The service is represented on the corporate Information Governance Group (IGG) to provide advice and guidance and to carry out independent assurance work on the Council's information governance arrangements.

### **Grant Work**

As the Council strives to maximise external funding to help it deliver its objectives, we have been increasingly required to provide independent assurance that funding is correctly spent by certifying grant claims. Such work adds value by ensuring no grant is lost through claw back or reputational damage that may impact on future external funding opportunities.

### **Review of Contracts (Ongoing)**

As part of our counter fraud programme we continue to work with colleagues in Corporate Procurement to identify purchases made outside of agreed contracts to highlight potential inefficiencies and detect any non-compliance with corporate procurement arrangements (potential fraud indicator).

### **Oracle Programme Board (Ongoing)**

The service was represented on the working group developing the upgrade to the Oracle financial system and now continuous improvement to the system. This will ensure any upgrade and improvement works does not weaken the current control environment and ensures a proactive approach to auditing.

### **Debtors Working Group (Ongoing)**

The service is represented on the working group to improve the sundry debtors processes, with a primary focus at present on recovery and streamlining and ensuring that monies are recovered in an efficient manner without increasing risk.

### **Invoice Payment Improvement Group / Procure to Pay Group (Ongoing)**

The service is represented on the working group to improve the efficiency of payment to the Council's creditors and to ensure that all necessary steps are taken to avoid error in payments. This is again a proactive piece of work that should ensure when formal assurance work is completed on the key systems that improvements do not lead to any future control risks.

### **Payroll System Migration**

The service is represented on the project working groups for implementing the proposed new Payroll System. Ensuring no critical controls would be lost in any system migration and that benefits can be realised from the new system appropriately. Work continues on this project.

### **Petty Cash / Procurement Cards**

Following the Council's change of Banking Contractor a review of current Petty Cash arrangements are being reviewed alongside the use of Procurement Cards as an alternative. The Service is represented to give advice on controls and reconciliations to be put in place and to give counter fraud guidance as applicable.

### KEY CONTROL ISSUES

#### Key Financial Systems

It is acknowledged that good progress continues to be made to improve the financial management framework, including the recent refresh of financial management standards. However the assurance opinion on the financial control environment operating during 2016/2017 was, overall, still considered to be Moderate.

The main areas where improvements were identified through internal work related to cash collection, debt recovery and the timely payment of creditors. A number of control weaknesses were identified primarily due to procedures not being clear and the roles and responsibilities of those involved needing to be clarified. This is being addressed.

The testing of the financial control environment is now substantially complete however some reports are still to be issued and agreed by management. However it should be noted that there continues to be good progress made on the implementation of audit recommendations arising from both internal work and completion of internal audit work.

#### Limited Assurance Opinions

During the year limited assurance opinions were delivered against the following areas with follow up working either currently being in progress or is planned to be completed in the coming months. In all cases an agreed action plan has been developed and is being implemented. The details of the issues raised can be found on Part B the Audit Committee Papers held throughout the year. Below is a brief summary of the work that was carried out.

#### **Children's Services Supervised Spend (Leaving Care)**

A review that looked at:

- ) Employees roles and responsibilities.
- ) The assessment process in place.
- ) The approval process in place.
- ) Ensuring compliance with approved allowances and guidance

## **Transport – Contractual Arrangements**

A review that looked at:

- ) Awarding of Contract;
- ) Ensure the safety of passengers;
- ) Performance monitoring of contractors;
- ) Contracts cover all areas and do not leave the Council open to risk;
- ) The payment procedures in place.

## **Creditor Supplier Masterfile**

A review that looked at:

- ) Payments being made to correct legal entities. are made to incorrect /out of date suppliers
- ) Procurement of goods/services and payments made were following procedures.

## **High Etherley Children's Home**

This review examined:

- ) Income is collection and control
- ) Expenditure authorisation
- ) Allowances
- ) Documentation and reconciliations
- ) Asset Management
- ) Adequate Budgetary Control

## **Asset Management**

A review that looked at:

- ) The asset portfolio
- ) Forward Planning
- ) Performance Monitoring
- ) Disposal Procedures
- ) Capital Receipts
- ) Property Valuations.

## **Agency**

Following an investigation, this assurance review was carried out to determine if the controls in place reduce the risk of any overpayments being made.

## **Shared Lives**

A review that examined:

- ) Provider applications
- ) The Shared Lives Panel
- ) Providers roles and responsibilities
- ) Monitoring of the Shared Lives Provider placements.
- ) Service User referral and assessment processes
- ) Safeguarding measures
- ) Shared Lives Providers are not paid/incorrectly paid for services provided
- ) Budgetary Control
- ) Compliance with the Data Protection Act.

## **On and Off Street Parking**

This review examined:

- ) Potential for loss of income through fraud or error
- ) The issuing of parking charge notices
- ) Complaints procedure
- ) Contract Monitoring
- ) Performance Monitoring
- ) IT System in place

## **Procurement Cards**

This review looked at:

- ) Reconciliations and Control in place.
- ) Assignment of Procurement Cards
- ) Budgetary Control
- ) Purchases on Cards still represent Value for Money

## **Health and Safety Training**

This review examined:

- ) Training needs are identified following any injury or accident at work
- ) Training procured is cost effective

## **Debit Card Cash Account**

A review that looked at:

- ) Service User's income and Payment
- ) Controls around payments are made

## **Shared Lives – Financial Inspections**

A review that looked at:

- ) Financial Controls Shared Lives Service Users are at risk of financial abuse
- ) Employees Roles and Responsibilities

## **Foster Carer Payments**

This review examined:

- ) The effectiveness of the Fostering Panel
- ) The effectiveness of the Locality Admin Team
- ) Foster Carers/payments and the controls in place
- ) Prompt recover of any overpayments.
- ) Budgetary Control.
- ) Compliance with the Data Protection Act.

## **Leisure Centre Timesheet Procedures**

This review examined the arrangements in place to mitigate against the risk of payments to employees not reflecting actual hours worked.

## **Mobile Computing**

This review examined:

- ) The potential for a data leak or disclosure of confidential data due to device loss, device theft, theft of data from devices or interception of data in transit, including wireless connections.
- ) Malware propagation.
- ) Compliance with corporate security policies.

## **ICT Asset Register**

Assurance review of the arrangements in place to mitigate against the risk of assets not being identified, recorded and monitored throughout their life cycle.

## **Fraud and Irregularity**

Weaknesses in control identified through fraud and irregularity investigations.

The Counter Fraud and Corruption Strategy which was refreshed in February 2016 and potential cases of suspected fraud and / or irregularity are reported to Internal Audit. Details of cases reported and the work being undertaken to combat the strategic corporate risk of fraud are reported to Corporate Management Team and the Audit Committee in the Annual Protecting the Public Purse Report.

It should be noted that of the potential cases reported in 2016/2017, improvements in controls weaknesses were identified in many of the cases, irrespective of whether or not any wrong doing was substantiated.

## Assurance Opinion Methodology

## Appendix D

### Findings

Individual findings are assessed on their impact and likelihood based on the assessment rationale in the tables below:

<b>Impact Rating</b>	<b>Assessment Rationale</b>
<b>Critical</b>	<b>A finding that could have a:</b>
	<b>Critical</b> impact on operational performance (Significant disruption to service delivery)
	<b>Critical</b> monetary or financial statement impact (In excess of 5% of service income or expenditure budget )
	<b>Critical</b> breach in laws and regulations that could result in significant fine and consequences (Intervention by regulatory body or failure to maintain existing status under inspection regime)
	<b>Critical</b> impact on the reputation of the Council (Significant reputational damage with partners/central government and/or significant number of complaints from service users)
	<b>Critical</b> impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public)
<b>Major</b>	<b>A finding that could have a:</b>
	<b>Major</b> impact on operational performance (Disruption to service delivery)
	<b>Major</b> monetary or financial statement impact (1-5% of service income or expenditure budget )
	<b>Major</b> breach in laws, regulations or internal policies and procedures (noncompliance will have major impact on operational performance, monetary or financial statement impact or reputation of the service)
	<b>Major</b> impact on the reputation of the service within the Council and/or complaints from service users
<b>Minor</b>	<b>A finding that could have a:</b>
	<b>Minor</b> impact on operational performance (Very little or no disruption to service delivery)
	<b>Minor</b> monetary or financial statement impact (less than 1% of service income or expenditure budget )
	<b>Minor</b> breach in internal policies and procedures (noncompliance will have very little or no impact on operational performance, monetary or financial statement impact or reputation of the service)

<b>Likelihood</b>	<b>Assessment criteria</b>
<b>Probable</b>	Highly likely that the event will occur (>50% chance of occurring)
<b>Possible</b>	Reasonable likelihood that the event will occur (10% - 50% chance of occurring)
<b>Unlikely</b>	The event is not expected to occur (<10% chance of occurring)

**Overall Finding Rating**

This grid is used to determine the overall finding rating.

LIKELIHOOD			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	M
	Minor	Major	Critical
	IMPACT		

**Priority of our recommendations**

We define the priority of our recommendations arising from each overall finding as follows;

<b>High</b>	Action that is considered imperative to ensure that the service/system/process objectives are not exposed to <b>significant risk</b> from weaknesses in critical or key controls
<b>Medium</b>	Action is required to ensure that the service/system/process objectives are not exposed to <b>major risk</b> from weaknesses in controls
<b>Best Practice</b>	Action required to ensure that the service/system/process objectives is not exposed to <b>minor risk</b> from weaknesses in controls

**Overall Assurance Opinion**

Based upon the ratings of findings and recommendations arising during the audit as summarised in the risk matrix above we define the overall conclusion of the audit through the following assurance opinions:

<b>Substantial Assurance</b>	Whilst there is a sound system of control, there are some weaknesses, which may put some of the system objectives at minor risk. (No H or M findings/recommendations)
<b>Moderate Assurance</b>	Whilst there is basically a sound system of control, there are some weaknesses, which may put some of the system objectives at major risk. (No H findings/recommendations)
<b>Limited Assurance</b>	There are weaknesses in key areas in the system of control, which put the system objectives at significant risk.(H findings/recommendations)

## Summary of Assurance Work 2016 / 2017

## Appendix E

Service Grouping	Service	Audit Activity	Assurance Opinion
Adult and Health Services	Adult Services	Pathways - Establishment Closure Audit - Consett	Substantial
Adult and Health Services	Adult Services	Pathways - Establishment Closure Audit - Chester Le Street	Substantial
Adult and Health Services	Adult Services	Pathways - Establishment Closure Audit - Bishop Auckland	Substantial
Adult and Health Services	Adult Services	Adaptations Service - Follow Up Review	Moderate
Adult and Health Services	Adult Services	Reablement Services	Moderate
Adult and Health Services	Adult Services	Shared Lives	Limited
Adult and Health Services	Commissioning	Creditors Supplier Masterfile	Limited
Adult and Health Services	Environmental Health and Consumer Protection	Control of Infectious Diseases (Third Party Assurance)	Substantial
Adult and Health Services	Environmental Health and Consumer Protection	Inspection of Licensing - Body Art Licences	Substantial
Adult and Health Services	Environmental Health and Consumer Protection	Licensing Enforcement - Safeguarding Complaints	Substantial
Adult and Health Services	Environmental Health and Consumer Protection	Works in Default	Substantial
Adult and Health Services	Planning and Service Strategy	SSID System Review	Substantial
Adult and Health Services	Planning and Service Strategy	POPPIE Systems Review	Substantial
Adult and Health Services	Planning and Service Strategy	County Durham Well Being for Life Service - DCRS	Moderate
Adult and Health Services	Public Health	Drug and Alcohol Treatment Services - Contract Management Arrangements	Moderate
Adult and Health Services	Public Health	Review of Lifeline Contract	Moderate
Children and Young People's Service	Children's Services	Children's Homes - High Etherley Follow Up	Substantial
Children and Young People's Service	Children's Services	Children's Homes - Framwellgate Moor	Moderate
Children and Young People's Service	Children's Services	Foster Carer Payments	Limited
Children and Young People's Service	Children's Services	Children's Homes - High Etherley	Limited

<b>Service Grouping</b>	<b>Service</b>	<b>Audit Activity</b>	<b>Assurance Opinion</b>
Children and Young People's Service	Children's Services	Supervised Spend - Leaving Care	Limited
Children and Young People's Service	Education	Youth Employment Initiative - Grant Claim Stage 2 Review	Moderate
Children and Young People's Service	Education – Schools	Schools - Safe Recruitment and Selection	Limited
Children and Young People's Service	Planning and Service Strategy	SSID System Review	Substantial
<b>Regeneration and Local Services</b>			
Regeneration and Local Services	Culture and Sport	Leisure Centre - Core Financial Systems (Teesdale)	Substantial
Regeneration and Local Services	Culture and Sport	Shildon Leisure Centre - Follow Up	Substantial
Regeneration and Local Services	Culture and Sport	CLUK Income Share Agreement	Substantial
Regeneration and Local Services	Culture and Sport	Integrated Leisure Management System	Substantial
Regeneration and Local Services	Culture and Sport	DLI Museum	Substantial
Regeneration and Local Services	Culture and Sport	Gala Stage School	Substantial
Regeneration and Local Services	Culture and Sport	Locomotion - Follow Up	Substantial
Regeneration and Local Services	Culture and Sport	Review of Leisure Centre Timesheet authorisation procedures (10 DCC centres)	Limited
Regeneration and Local Services	Direct Services	Bereavement Services - Public Health Funeral Arrangements	Substantial
Regeneration and Local Services	Direct Services	Durham Crematorium	Substantial
Regeneration and Local Services	Direct Services	Mounsett Crematorium	Substantial
Regeneration and Local Services	Direct Services	Electrical Components - Procurement Card Expenditure (Follow Up)	Substantial
Regeneration and Local Services	Direct Services	Contract Audit - Direct Services	Moderate
Regeneration and Local Services	Direct Services	Fuel Stocks & Stores	Moderate
Regeneration and Local Services	Economic Development and Housing	Durham Employment and Skills	Substantial
Regeneration and Local Services	Economic Development and Housing	Gypsy Roma Traveller Sites	Moderate
Regeneration and Local Services	Economic Development and Housing	Business Durham	Moderate
Regeneration and Local Services	Economic Development and Housing	Financial Assistance Programme	Moderate
Regeneration and Local Services	Economic Development and Housing	International Relations	Moderate
Regeneration and Local Services	Planning and Assets	Utility Bills	Moderate
Regeneration and Local Services	Planning and Assets	Building Control - Systems Review	Moderate
Regeneration and Local Services	Planning and Assets	Asset Management - Follow Up	Moderate

<b>Service Grouping</b>	<b>Service</b>	<b>Audit Activity</b>	<b>Assurance Opinion</b>
Regeneration and Local Services	Planning and Assets	Asset Management	Limited
Regeneration and Local Services	Projects and Business Services	Garden Waste Collection	Substantial
Regeneration and Local Services	Projects and Business Services	Customer Services Complaints	Substantial
Regeneration and Local Services	Strategy, Programmes and Performance	EU Structural Funds Programme	Moderate
Regeneration and Local Services	Technical Services	Compliance with Construction, Design and Maintenance Procedures	Substantial
Regeneration and Local Services	Technical Services	Stores Management - Disposal of Waste Materials	Substantial
Regeneration and Local Services	Technical Services	Civil Engineering Framework Sub £50K - Follow Up	Substantial
Regeneration and Local Services	Technical Services	Stores (Buildings & Highways)	Substantial
Regeneration and Local Services	Technical Services	Capital Project Review	Moderate
Regeneration and Local Services	Transport and Contract Services	Telecare Services & Care Connect	Substantial
Regeneration and Local Services	Transport and Contract Services	Supported Housing - CCTV	Substantial
Regeneration and Local Services	Transport and Contract Services	Concessionary Fares	Moderate
Regeneration and Local Services	Transport and Contract Services	Transport - Contractual arrangements	Limited
Regeneration and Local Services	Transport and Contract Services	On Street and Off Street Parking	Limited
Resources	Corporate Finance and HR	Procurement - CPRs	Substantial
Resources	Corporate Finance and HR	Journals	Substantial
Resources	Corporate Finance and HR	Recruitment and Selection	Substantial
Resources	Corporate Finance and HR	Tendering/Quotation arrangements	Substantial
Resources	Corporate Finance and HR	Procurement - Off Contract Spend	Moderate
Resources	Corporate Finance and HR	Appraisals	Moderate
Resources	Corporate Finance and HR	Contract Management	Moderate
Resources	Corporate Finance and HR	Attendance Management Framework	Moderate
Resources	Corporate Finance and HR	Procurement cards	Limited
Resources	Corporate Finance and HR	Health & Safety training requirements	Limited
Resources	Financial and HR Services	Council Tax	Substantial
Resources	Financial and HR Services	Business Rates	Substantial
Resources	Financial and HR Services	Payroll	Substantial
Resources	Financial and HR Services	Budgetary Control	Substantial

<b>Service Grouping</b>	<b>Service</b>	<b>Audit Activity</b>	<b>Assurance Opinion</b>
Resources	Financial and HR Services	Better Care Fund	Substantial
Resources	Financial and HR Services	Creditors - Feeder Systems	Substantial
Resources	Financial and HR Services	Business Rates - Reconciliations	Substantial
Resources	Financial and HR Services	HB - Reconciliations	Substantial
Resources	Financial and HR Services	HB - Welfare Assistance Scheme	Substantial
Resources	Financial and HR Services	HB - Discretionary Housing Payments	Substantial
Resources	Financial and HR Services	Council Tax - Reconciliations	Substantial
Resources	Financial and HR Services	Housing Benefits	Moderate
Resources	Financial and HR Services	Creditors	Moderate
Resources	Financial and HR Services	Creditors - Invoices with no PO	Moderate
Resources	Financial and HR Services	Creditors - Masterfile	Moderate
Resources	Financial and HR Services	Cash Collection	Moderate
Resources	Financial and HR Services	Debtors	Moderate
Resources	Financial and HR Services	Payroll - General Ledger Uploads	Moderate
Resources	Financial and HR Services	Cash Collection - Weighbridges	Moderate
Resources	Financial and HR Services	Cash Collection - Wharton Park	Moderate
Resources	Financial and HR Services	FST - Court of Protection Bank Account	Moderate
Resources	Financial and HR Services	Agency	Limited
Resources	Financial and HR Services	Learning Disability Shared Lives Service - Financial Inspections	Limited
Resources	Financial and HR Services	FST - Debit Card Cash Account	Limited
Resources	Information and Communication Technology	ISP - Systems Development & Maintenance	Substantial
Resources	Information and Communication Technology	ICT Strategy	Substantial
Resources	Information and Communication Technology	Windows	Substantial
Resources	Information and Communication Technology	Design and Print Service	Moderate
Resources	Information and Communication Technology	Mobile Computing	Limited

<b>Service Grouping</b>	<b>Service</b>	<b>Audit Activity</b>	<b>Assurance Opinion</b>
Resources	Information and Communication Technology	Asset Register	Limited
Resources	Legal and Democratic Services	Land Charges	Moderate
Transformation and Partnerships	Partnerships and Community Engagement	AAPs: Performance Management Framework	Substantial
Transformation and Partnerships	Partnerships and Community Engagement	Partnership Governance Framework	Moderate
Transformation and Partnerships	Partnerships and Community Engagement	Community Grants	Moderate
Transformation and Partnerships	Planning and Performance	Equality Impact Assessment process for MTFP	Substantial
Transformation and Partnerships	Planning and Performance	County Records Office	Substantial
Transformation and Partnerships	Planning and Performance	Data Quality Framework	Moderate
Transformation and Partnerships	Planning and Performance	Freedom of Information	Moderate
Transformation and Partnerships	Policy and Communications	Business Continuity	Substantial

## **Audit Committee**

28 June 2017



## **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 Members are asked to agree the response to questions put to the Committee at its meeting on 24 February 2017 from the External Auditor that look to evidence how management and those charged with governance are discharging their responsibilities.

#### **Background**

- 2 At its meeting on 24 February 2017 the External Auditor requested in their regular progress report that the Audit Committee consider a range of questions in order to obtain evidence of how management and those charged with governance are discharging their responsibilities in order for the External Auditor to discharge their duties under International Standard for Auditing (ISA) 240, 250 and 570.
- 3 The report asked that the Committee provide a response to those questions at its next meeting.

#### **Response**

- 4 The questions and responses are attached to this report as Appendix 2.

#### **Recommendations and reasons**

- 5 Members are asked to agree the response to the External Auditor set out at Appendix 2.

#### **Background papers**

External Audit Progress Report – February 2017, Audit Committee 24 February 2017

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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.

**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** – Compliance with International Standards for Auditing

## **Response to ISA240 Questions**

- 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.***

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.

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 is formally reviewed by the Committee.

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 2016 – 31 March 2017?***

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.

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 2016/2017?***

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. In addition the Committee regularly calls officers to attend its meetings in order to ascertain their intentions for control improvements. Therefore the Audit Committee can confirm that they are unaware of any significant breaches of Internal Control during 2016/2017 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 Internal 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 and the Director of Transformation and Partnerships that confirm from their perspective that controls are working effectively.

Any areas of weakness are brought to the attention of the Committee through the quarterly reports and Senior Managers attend the Committee to explain the improvements that will be made.

Areas of interest or of importance are also presented to the Committee for example in November 2016 the Head of ICT and the Chief Internal Auditor and Corporate Fraud Manager gave a presentation on Cyber Security and the controls the Council has in place to prevent and deter an attack. This also showed the work Internal Audit were completing where it would give the Committee the assurance that controls were in place and working well.

**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 2016/17.

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 2016/2017. These are included in the 2016/2017 statement of accounts for the Audit Committee's approval in June 2017.

**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 factors which create a high risk of fraud?***

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.

### **Response to ISA250 Question**

**1) *How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with?***

***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?***

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.

The Audit Committee does not have any knowledge of any actual or suspected instances where appropriate laws and regulations have not been complied with.

### **Response to ISA501 Question**

- 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.

### **Response to ISA570 Questions**

- 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 Corporate Director of Resources at its meeting on 28 June 2017 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 2016/2017 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?***

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.

## **Response to Consideration of Related Parties Questions**

### **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 2016/17.

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 2016/2017. These will be included in the 2016/2017 statement of accounts for the Audit Committee's approval in June 2017.

### **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.

## Audit Committee

28 June 2017



### Draft Annual Governance Statement for the Year April 2016 – March 2017

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## Report of Corporate Management Team

## Report of John Hewitt, Corporate Director Resources

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### Purpose of the Report

- 1 To seek approval of the draft Annual Governance Statement (AGS) for 2016/17, attached in **appendix 3**. Audit Committee will be asked to approve the Final AGS on 31 July 2017.

### Background

- 2 The Accounts and Audit Regulations 2015 require a local authority to conduct a review at least once in a year of the effectiveness of its system of internal control. The findings of the review must be reported publicly in an AGS, showing the extent to which they comply with their own code of governance. The AGS should also explain how the effectiveness of the governance arrangements in the year have been monitored, and include any planned changes in the coming period.
- 3 The legal requirement will be fulfilled if the review is conducted in accordance with the new Delivering Good Governance (DGG) in Local Government Framework (2016). The guidance notes accompanying the framework include key good practice features of an annual governance statement and these are set out in **appendix 2**.
- 4 The Corporate Director, Resources is responsible for co-ordinating and overseeing the Council's corporate assurance arrangements, and prepares the AGS to demonstrate how far the Council complies with the principles of good governance and recommending improvements, to be published in the Council's Annual Statement of Accounts. The draft AGS is included in **appendix 3**.

### Outcome of the Review of Effectiveness

- 5 The outcome of the review of effectiveness is set out in the AGS and concludes that the Council's corporate governance arrangements in place during 2016/17 were fit for purpose in accordance with the governance framework.

## Issues for Consideration

- 6 The AGS should also highlight any areas where improvements to governance arrangements are planned, for example, through enhancements to existing arrangements as part of continuous improvement or from an identified weakness. With regard to the latter, there are no formal criteria of what constitutes a significant weakness requiring action. Guidance issued by the Chartered Institute of Public Finance and Accountancy lists factors which may be helpful in deciding whether or not a particular issue should be regarded as falling into this category:
- (a) The issue has seriously prejudiced or prevented achievement of a principal objective.
  - (b) The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business.
  - (c) The issue has led to a material impact on the accounts.
  - (d) The Audit Committee, or equivalent, has advised that it should be considered significant for this purpose.
  - (e) The Head of Internal Audit has reported on it as significant, for this purpose, in the annual opinion on the internal control environment.
  - (f) The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation.
  - (g) The issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.
- 7 The review also concluded that five actions, listed in appendix C of the AGS, should be included in the plan of improvements to strengthen governance arrangements during 2017/18.

## Recommendations and reasons

- 8 Audit Committee is requested to:
- (a) approve that actions 1 to 5 in appendix C are included in the plan of improvements to strengthen governance arrangements during 2017/18;
  - (b) confirm that this draft AGS can proceed to Audit Committee.

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**Contact: Kevin Roberts Tel: 03000 269657**

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## **Appendix 1: Implications**

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**Finance** – Financial planning and management is a key component of effective corporate governance.

**Staffing** – Ensuring the adequate capability of staff meets a core principle of the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) guidance.

**Risk** – Delivery of the corporate governance action plan will strengthen the decision making and strategic and operational management of the Council's business.

**Equality and Diversity / Public Sector Equality Duty** – Engaging local communities including hard to reach groups meets a core principle of the CIPFA/ SOLACE guidance.

**Accommodation** – None directly, although asset management is a key component of effective corporate governance.

**Crime and Disorder** – None

**Human Rights** – None

**Consultation** – Engaging local communities meets a core principle of the CIPFA/ SOLACE guidance.

**Procurement** – None

**Disability Issues** – Ensuring access to services meets a core principle of the CIPFA/ SOLACE guidance.

**Legal Implications** – Ensuring compliance with relevant laws and regulations, and ensuring that expenditure is lawful, is a key component of effective corporate governance

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## Appendix 2: Key Good Practice Features of an AGS

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The following text is an extract from the CIPFA/SOLACE: *Delivering Good Governance in Local Government Guidance Notes for English Authorities 2016*.

4.4 Key good practice features of an annual governance statement are described below:

- The statement has been properly approved.
- It is regarded as a valuable means of communications which will enable stakeholders to understand the authority's governance arrangements.
- It is easily accessible by authority members and members of the public, for example:
  - through its prominent display on the authority's website
  - publishing it with, but separately from, the statement of accounts.
- It has been clearly thought out and reflects the vision, character and structure of the authority, ie the big picture and not the detail.
- It demonstrates ownership by the authority and has a high status within senior management.
- It is a genuinely shared effort with wide input from outside the finance and audit functions.
- It is a key document for showing how the authority is achieving its strategic objectives.
- It is in an open and readable style.
- It demonstrates challenge.
- Issues are clearly articulated and it communicates a clear and concise message.
- Weaknesses together with areas for improvement are highlighted.
- It clearly communicates what has been done to resolve significant control issues and what remains to be done.
- Actions identified are specific, measurable, achievable, realistic and time-related (SMART).
- Responsibility for those actions is clearly identified.
- It is a 'living' document, ie it is not focused exclusively on year end and communicates significant issues which may change from year to year.

4.5 Other innovative features might include the following:

- Good use of diagrams to communicate the message more effectively and reduce the need for text.
- Use of hyperlinks to key governance documents to facilitate a brief and more user friendly statement.

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## **Appendix 3: Annual Governance Statement 2016/17**

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### **INTRODUCTION**

1. This statement 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 (AGS). It explains how the Council's arrangements for the governance of its affairs complied with its Local Code of Corporate Governance for the year ended 31 March 2017.

### **CONTEXT**

2. To provide context for this statement, summarised information relating to the constitution, structure, budget and services provided by Durham County Council, along with key statistical information about County Durham can be found on the [About Us](#) page on the Council's website.

### **SCOPE OF RESPONSIBILITY**

3. 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.
4. The Accounts and Audit (England) Regulations 2015 require the Council to prepare an AGS, 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.
5. 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 and performance.
6. In January 2017, 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".

## THE PURPOSE OF THE GOVERNANCE FRAMEWORK

7. The governance framework comprises the systems, processes, 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 sustainable economic, social and environmental benefits for the people of County Durham.
8. 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 occurring and the impact should they occur, and to manage them efficiently, effectively and economically.
9. The governance framework has been in place across the Council for the year ended 31 March 2017 and up to the date of approval of the Statement of Accounts.

## THE GOVERNANCE FRAMEWORK

10. The key elements of 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 seven core principles of the CIPFA/ SOLACE Framework.
11. 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 March 2017.
12. 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](#).
13. 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 2016/17.

## REVIEW OF EFFECTIVENESS

14. 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.
15. 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
16. 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 AGS to demonstrate how far the Council complies with the principles of good governance and recommending improvements.
  - Internal Audit provides independent assurance on the effectiveness of the corporate governance framework;
  - External Audit provides an independent opinion on whether the AGS is materially accurate.
17. The review was also informed by a statement provided by each Corporate Director 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.
18. The Chief Internal Auditor and Corporate Fraud Manager provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which was incorporated in the Annual Internal Audit Report to the Audit Committee in June 2017. This opinion is based on audit reviews undertaken during the year which

found all systems reviewed to give substantial or moderate assurance, except in 22 cases where limited assurance was reported. In the main, these issues related to specific areas and did not reflect weaknesses in the underlying governance arrangements. However, the procedure for approving payments to agency workers across the Council is disclosed as an area requiring improvement. Whilst it is understood that the necessary changes were implemented in the last quarter of 2016/17, it is essential that these are closely monitored across the coming year to ensure they are effective.

19. Aligned to the seven principles of good governance, a detailed account of how the Council's governance arrangements have operated during 2016/17 is included in **appendix A**. An update on improvements identified in the 2015/16 is included in **appendix B**.

## **CONCLUSION**

20. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2016/17 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 five actions as part of ongoing improvements to further strengthen governance arrangements in 2017/18. These are shown in **appendix C**.

## **APPROVAL OF ANNUAL GOVERNANCE STATEMENT**

Signed:

Simon Henig  
Leader of Durham County Council

Terry Collins  
Chief Executive

John Hewitt  
Corporate Director, Resources

## **APPENDIX A: Governance Arrangements during 2016/17**

Aligned to the seven principles of good governance, the following paragraphs provide a detailed account of how the Council's governance arrangements have operated during 2016/17.

### **Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

#### **Behaving with integrity**

1. The expected standards of behaviour for members and employees are detailed in codes of conduct in the Council [Constitution](#), which 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. They are communicated at induction and re-iterated regularly during appraisals and in news bulletins.
2. 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. 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. The register of gifts, interests and hospitality for members is available online. Staff declarations are maintained and monitored by their Head of Service.
3. The key mechanism provided for employees, 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. An updated [Counter Fraud & Corruption Strategy and Fraud Response Plan](#) were approved by Audit Committee in February 2016. The Corporate Fraud Team maintains robust counter fraud arrangements and piloted a joint approach to fraud investigation with Durham Constabulary to improve the understanding of the risks of serious and organised crime.

#### **Demonstrating strong commitment to ethical values**

4. 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. The annual report of the Standards Committee was presented to Council in September 2016.

5. The Council's Codes of Conduct included in the [Constitution](#) also apply to its partnership working, and all contracts contain clauses requiring providers to have appropriate procedures in place to prevent unlawful discrimination in employment.

#### **Respecting the rule of law**

6. In February 2017, the Council approved with immediate effect that the Chief Executive Officer (the head of paid service) and the Corporate Director Resources undertake the roles of Returning Officer and Deputy Returning Officer respectively. The Council also approved that that the recruitment of the Head of Legal and Democratic Services, on both an interim and subsequent permanent basis, be delegated to the CEO and the Corporate Director Resources, in consultation with the Leader of the Council.
7. To strengthen the arrangements for meeting its duty of care to service users and the public, the Council has instructed officers to devise a policy framework on Disclosure and Barring Service checks for members and present this to the Constitution Working Group.
8. As required by law, the Council has established and maintains an independent remuneration panel to provide advice on allowance schemes and the amounts to be paid to members.

#### **Principle B: Ensuring openness and comprehensive stakeholder engagement**

##### **Openness**

9. A climate of openness has been encouraged by the Council Leader who holds regular Cabinet meetings at various locations throughout County Durham. A notice of key decisions covering a rolling period of four months is published on the Council's website, and decisions made by the Executive are published within two days of the respective meeting.

##### **Engaging comprehensively with institutional stakeholders**

10. 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. Through its partnership governance framework, the Council seeks

assurance that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority, and that there is clarity about the legal status of the partnership. Efforts are made to ensure that representatives and organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.

11. The Leader of the Council is the chair of the County Durham Partnership, which is the strategic partnership covering most partnerships in County. Through the Transformation Programme, the Council continues to engage in the North East Local Enterprise Partnership and Combined Authority, taking a regional perspective and seeking to work across broader partnerships to secure investment. Under the same programme, a review of partnerships has commenced, with the aim of moving this aspect of working from good to great through efficiencies, sharing resources and seeking to ensure that the county has a louder, stronger voice.
12. In support of the Voluntary and Community Sector (VCS), the Better Together Forum, which is chaired by the VCS representative on the County Durham Partnership Board, brings together senior representatives of larger or specialist VCS organisations with a countywide remit to share best practice and look for new opportunities to collaborate.
13. A Chief Officer Group continues to provide 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. The Durham Humanitarian Support Partnership, now in its second year, has given support and positive experiences to families welcomed under the Syrian Vulnerable Persons Resettlement Scheme.
14. Visit County Durham, which receives funding from the Council, launched the Durham Place of Light campaign. This place brand and marketing strategy aims to change perceptions of the county around economic success under four main themes: Lighting up days and nights; Lighting up the past; Illuminating the future and Shining spirits. Further information is online at [www.durhamplaceoflight.com](http://www.durhamplaceoflight.com).
15. Efforts are being made through collaboration on the two NHS Sustainability and Transformation Plans (STP), which were presented to Adults, Wellbeing and Health Overview and Scrutiny Committee in March 2017, to ensure that the benefits of health and social care integration are maximised for County Durham residents. The STPs, which form part of the five year plan for the health

service, aim to bring organisations together to develop a shared plan for better health and social care.

16. The Council has helped further develop the North East Highways Collaborative Alliance, a forum for all 12 north east councils, to facilitate shared services, joint procurement, supply chain optimisation and training.

### **Engaging with individual citizens and service users effectively**

17. 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. Attendance by the public at Council meetings and the protocols for asking questions are contained in the [Constitution](#).
18. The new Transformation Programme was informed by consultation with members, employees, trade unions and focus groups. 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 200 people, including service users, patients, carers, representatives from the voluntary and community sector, NHS and local authority partners. The event gave people an opportunity to provide their views on how services should be developed. The Council also consulted with the public and stakeholders as part of the Medium Term Financial Plan (MTFP) development, with presentations and roadshows at various venues, including supermarkets, to engage with as broad a range of people as possible.
19. The Council uses various channels of communication and feedback mechanisms to reach out to and meet the needs of its communities. Fourteen [Area Action Partnerships \(AAPs\)](#) are fully engaged with the community in identifying and addressing local priorities, and utilising locality budgets to drive improvements to the local area. Cabinet-approved masterplan updates for twelve localities were presented to the respective AAP to enable discussion and feedback on proposals. Faith groups also play an important role in health and wellbeing and contribute to flourishing and resilient communities, while inter faith engagement continues through the County Durham Faiths Network.

### **Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits**

#### **Defining outcomes**

20. 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 2016 - 2019](#);
- 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 2016 - 2019](#) and the [Police, Crime and Victims' Plan 2016-21](#).

Apart from the Regeneration Statement, each of the above documents was refreshed during 2016/17.

21. The Council has responsibility for public health, which is overseen by the Health and Wellbeing Board, a Committee of the Council.
22. As part of the Transformation Programme, a review of the corporate planning process is underway to ensure that plans drive activity in the most cost-effective way. As agreed by members in July 2016, this will include a review of the Council Plan, led by the Director of Transformation and Partnerships. In the meantime the existing three year Council Plan will roll forward until a new corporate planning framework is agreed.

#### **Sustainable economic, social and environmental benefits**

23. The Overview and Scrutiny Management Board, supported by its six committees, makes 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 the County Durham Plan, Local

Transport Plan and preventative mental health services review and commissioning.

24. 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, including:-
- Significant investment in line with the Council's highest priority of regeneration in order to protect existing jobs and create new jobs;
  - Investing in our town centres, industrial estates and infrastructure including new transport schemes and maintenance of our highways and pavements;
  - Continued support to protect working age households in receipt of low incomes through the continuation of the Council Tax Reduction Scheme;
  - Ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people; and
  - Continued work with community groups through the 'Durham Ask' initiative to transfer council assets so that they can be sustainable into the future.
25. The values of the Council are further promoted in the [Equality Policy](#), which 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. A mobile-friendly website, [Locate](#), provides an improved directory of vital care and support services, replacing the Durham Information Guide. There is a text messaging facility, enabled by the new customer relationship management system, for customer services enquiries from customers unable to use our other contact channels.

#### **Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes**

##### **Determining and planning interventions**

26. The Council ensures that decision makers receive objective and rigorous analysis of a variety of options, indicating how intended outcomes would be achieved and highlighting associated risks, in order to secure best value regardless of the service delivery method. In this respect, improvements have been made to financial modelling and financial advice supporting decisions relating to asset optimisation, particularly in respect of major projects including the strategic employment site and office accommodation programme. Decision-making is also supported by feedback from citizens and service users, for example:-
- The MTFP Plan strategy has been shaped by residents' and stakeholders' views with a high level analysis of the equalities impact.
  - The revised Strategy for Youth Support in County Durham was informed by a 12 week public consultation involving all stakeholders, including the views

of young people expressed through the 2015 County Durham Children and Young People's Student Voice Survey for Secondary Schools.

27. The Council operates robust decision-making mechanisms that include an assessment of associated risks and these have enabled outcomes to be achieved in various, innovative ways. For example, by investing in the digital banking company Atom Bank, in response to the growing number of people who use their mobile phone for banking, the region's financial jobs market was boosted, creating around 160 jobs at Aykley Heads. Chapter Homes was created in 2015 to improve the county's housing offer by providing well-designed, quality homes that meet the needs of people wanting to buy or rent in County Durham. Additional benefits include creating local jobs, using local contractors and boosting the local economy.
28. 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. Council business is still led by the [Sustainable Community Strategy \(SCS\) 2014 - 2030](#) but the [Council Plan 2016-2019 and Service Plans](#) will be reviewed after the local elections in May 2017 as a new vision for the County.
29. The [Medium Term Financial Plan 2017 - 2020 \(MTFP\)](#) was approved by the Council in February 2017. 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 seven years up to the end of March 2017, a sum of £186m of savings has been delivered. The Council's strategy for the last five years has been to protect front line services as far as possible and the 2017/18 proposals are in line with this strategy. To ensure that front line services can be protected wherever possible, the Transformation Programme seeks to ensure that all options are explored. 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.

30. 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.

#### **Optimising achievement of intended outcomes**

31. The new Transformation Programme will evolve over the next three to five years and includes a number of projects that make up a comprehensive change programme for the Council with the following core objectives:-
- Redesign our services to better meet customers' needs at reduced cost to the Council;
  - Help communities become more self-reliant and resilient;
  - Move our partnership working from good to great;
  - Become renowned for our skilled and flexible workforce and our employee engagement.

The programme reports to a new Transformation Board, consisting of Cabinet members and the Corporate Management Team, and chaired by the Leader of the Council. It is co-ordinated through a Steering group made up of senior officers leading on aspects of the programme and chaired by the Director of Transformation.

### **Principle E: Developing the Council's capacity, including the capability of its leadership and the individuals within it**

#### **Developing the Council's capacity**

32. 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 implemented to support the delivery of the strategy and its implementation and benefits will be monitored by Cabinet. The new system continues to build on progress made to provide further automated transactions and enhanced service information, giving customers choices in the way they contact the Council.
33. Inspire, which is part of our Transformation Programme, seeks to use modern ways of working to improve the services we provide our customers, making the most of our buildings, and providing the best environment and technology for employees. As well as plans to replace County Hall, four strategic sites will be refurbished to help employees share desks, work smarter and more flexibly.

34. The Council's Corporate Asset Management Plan (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. 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. The Council is now experienced in asset transfer, having successfully assigned a number of leisure centres, a golf course and children's centres to community organisations.
35. The Chief Executive implemented a revised chief officer structure to reflect the challenges faced by the Council whilst building on existing organisational strengths and delivering savings through more efficient ways of working. The service grouping for Adult and Health Services and Children and Young People's Services were split, and new structures developed under respective, newly-appointed corporate directors. The service groupings for Neighbourhood Services and Regeneration and Economic Development were merged to form Regeneration and Local Services. A new Transformation and Partnership Service will oversee delivery of the Transformation Programme to support the Council in becoming a leaner organisation, characterised by modern business practices, sustainable service delivery, excellence in customer service and a skilled and motivated workforce.
36. The Council maintains an effective workforce plan, through the Organisational Development Strategy, to enhance the strategic allocation of resources. Further work in this area will be undertaken as part of the Transformation Programme.
37. 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 and commercial benchmarking clubs to inform programmes of VFM reviews and savings options in various service areas. External Audit will review VFM as part of the audit of the 2016/17 Statement of Accounts.

### **Developing the capability of the Council's leadership and other individuals**

38. 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 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.
39. The [Constitution](#) also 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. 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.
40. The Council delegated authority for the discharge of County Council functions in the period between the County Council elections and the reconstitution of Council bodies.
41. The Council is committed to continually reviewing the development needs of members and officers and continues to be a member of the North East Public Service Academy, which promotes excellence in learning across the public sector.
42. Our approach to member development is outlined in the Member Learning and Development Strategy, and the Member Learning and Development Policy. A new elected member induction programme covering the constitution, decision making, scrutiny and key services is being developed for the new intake following the 2017 elections. A review of corporate management development was undertaken and sought to meet organisational priorities and the changing needs of the organisation linked to corporate values and the office accommodation programme.
43. The Council continues to encourage public participation through various actions. Support to the Advice in County Durham Partnership was enhanced with regular training and newsletters in addition to established network meetings. Area action partnerships continue to carry out initiatives that support all parts of their communities, for example:-

- East Durham Rural Corridor AAP's 'Out of the Comfort Zone' project is focussed on targeting isolated vulnerable people who do not participate in community activity;
  - Volunteers are given training and support to assist in their roles, help them to move into employment and bring about significant changes, which benefit themselves and their communities;
  - Through Durham Community Action, funded through the Transformation Challenge Award funding, a volunteer passport has been developed that records the individual's journey and training received.
44. The leadership's effectiveness is monitored and subject to challenge through various mechanisms enshrined in the Constitution, such as the overview and scrutiny arrangements, and questioning by members and the public.
45. Employees' needs, in terms of training, development, health and wellbeing, are delivered through the Organisational Development Strategy and the Health, Safety and Wellbeing Strategy. The Council continues to support employees through the change process with, for example, Jobcentre Plus information sessions and confidential counselling services through the Employee Assistance Programme.
46. Employee engagement continues through employee roadshows and focus groups, which will be used to generate ideas and support decision making across the Council. New developments in 2017/18 include the chief executive's video blog and focus groups for employees who share protected characteristics.
47. The annual employee survey was expanded, with the endorsement of the trade unions, to include things that may affect staff health and how well they feel at work. The results will be used to improve the support offered to employees as well as management, policies and working practices. These issues are particularly important during changes to the way the council works.

**Principle F: Managing risks and performance through robust internal control and strong public financial management**

**Managing risk and performance**

48. As required by the Risk Management Policy and Strategy, which defines key roles and responsibilities and is reviewed annually, risk management continues to be embedded in decision making and key business processes. The Audit Committee seeks assurance, through quarterly update reports, that the Council's strategic risks are being effectively managed.

49. The County Durham Partnership, which is the strategic partnership for the County, is made up of key public, private and voluntary sector partners, driven forward by thematic partnerships set around the five priority themes. Its role includes monitoring performance towards implementing the SCS, and considering strategically how plans align and where efficiencies and value can be maximised through integration, shared services and joint commissioning.
50. 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 and through performance clinics between the Chief Executive, individual Corporate Directors and the Director of Transformation and Partnerships during the year. A number of key in-depth evidence based reviews have also been carried out by Overview and Scrutiny Committees including attendance management and the development and implementation of the customer relationship management system.
51. To manage and measure service improvement, the Council has a locally led planning and performance management framework that links to the SCS and the [Council Plan](#). To ensure that attention remains focused on Council priorities, a review of these arrangements was initiated under the Transformation Programme. This seeks to reduce the number and size of plans and strategies and develop an approach to performance management that answers key performance questions rather than rely on performance indicators. Quarterly reports will be more concise, using a dashboard style with shorter narrative, and attention will move towards analysing and developing insights from the performance data.
52. The Quality Improvement Board is chaired by the Corporate Director of Children and Young People's Services and meets monthly to provide strategic oversight and lead improvements in quality. The Board oversees the implementation of the Ofsted improvement plan and receives reports on compliance with the tasks in the improvement action plan.
53. 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). An update on activity from the Panel is presented to each meeting of the Council's Safer and Stronger Communities Overview and Scrutiny Committee.
54. The Council endeavours to make the right decisions for the benefit of its stakeholders. The County Durham Partnership Forum meeting in October focused on how children and young people are actively engaged in the work of all partners and AAPs, particularly in decision making and having their thoughts

and ideas heard and, more importantly, put into action. This was inspired by the annual Children's Commissioner's Takeover Challenge, an England-wide event where organisations are encouraged to involve children and young people in decision making. The feedback will be used by the Children and Families Partnership to ensure that the initiative is countywide and all year round and adopted by other partners.

55. The Council's decision-making processes are also supported by a Risk Management Strategy and Policy and an Audit Committee with responsibility for monitoring and reviewing the risk, control and governance processes and associated assurance processes. The Council also ensures 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.

#### **Robust internal control**

56. Risk management and internal control are acknowledged as integral parts of the Council's performance management framework and crucial to the achievement of objectives. To reflect this, internal audit continuously reviews risks with reference to strategic objectives, and a register of strategic risks is compiled linking each item to the relevant strategic objective.

#### **Managing data**

57. The Council's arrangements for maintaining good-quality information include:-
  - regular meetings between the Senior Information Risk Officer, the Head of Planning and Performance, Head of ICT Services and the Council's designated Caldicott Guardian;
  - an online information security module, including a section on the Data Protection Act, which has been rolled out to all staff; and
  - data protection arrangements regarding data sharing through standardised subject access requests, privacy impact assessments and a rolling programme of audits.

#### **Strong public financial management**

58. 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 (2016). 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.

## **Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

### **Implementing good practice in transparency**

59. The council has an open data policy and has been publishing open datasets through the [Data Mill North](#) website. In response to the Local Government Transparency Code, a transparency and accountability web page was set up and the Council's Asset Register is now publicly available under the on the Council's website. As required by law, the sum paid to each county councillor is also published.
60. 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.

### **Implementing good practices in reporting**

61. The Local Code of Corporate Governance was substantially amended to bring it in line with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016. After consultation with the Improvement and Planning Group, it was approved by Audit Committee and Full Council.
62. The Statement of Accounts 2015/16 was approved by the Audit Committee in September 2016, taking account of the views of the External Auditor, in line with the Accounts and Audit Regulations 2015. External Audit also provides an independent opinion on whether the Annual Governance Statement is materially accurate. 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.

### **Assurance and effective accountability**

63. The Council strives to produce financial statements on a consistent and timely basis, in accordance with Financial Reporting Standards, in a way that enables comparison with other, similar organisations. As part of continuous improvements in the financial accounting process, the Council has commenced an early closure trial for the 2016/17 accounts.
64. The Chief Internal Auditor and Corporate Fraud Manager reports to the Council's Corporate Director, Resources, but in order to ensure independence, has direct access to the Chief Executive, and the Chair of the Audit

Committee. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit Committee, has been undertaken and was reported to the Audit Committee in July 2016. This review concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor and Corporate Fraud Manager to be relied upon.

65. An Audit Charter, which was approved in line with Public Sector Internal Audit Standards (PSIAS), is in place. The PSIAS were revised to take effect in April 2017, with more emphasis being placed on consultancy activity. Whilst assurance remains critical, it is important that the service can deliver a balanced approach and continually add value to the organisation.
66. The Council approved proposals of the Corporate Director of Resources regarding appointing the external auditor to the Council for the 2018/19 accounts and beyond.
67. The Council won 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.
68. In February 2016, an inspection of children's services and a review of the Local Safeguarding Children's Board were undertaken by Ofsted under their single inspection framework. The outcome was the Children's Service received a judgement of 'requires improvement'. A Quality Improvement Board (QIB), which had already been established to oversee quality assurance developments in Children's Services, agreed an improvement plan and this was submitted to Ofsted in September 2016. The Senior Inspector and Lead Inspector were assured by the content of the plan and fed back that it was a comprehensive and focused document with clear actions and timescales. Regular reports have been submitted during the year to Corporate Management Team, Cabinet, Children and Young People's Overview and Scrutiny Committee, as well as the Health and Wellbeing Board, Children and Families Partnership and Local Safeguarding Children's Board, providing progress updates on the work of the QIB and the status of the tasks in the improvement plan.
69. 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:-
  - The Care Quality Commission, who reviewed the following service areas: County Durham Care and Support (Extra Care, Short Break/Shared Lives and Supported Housing); Special Education Needs Disabilities.
  - Her Majesty's Inspectorate who reviewed the following service areas: Probation - County Durham Youth Offending Service.

- Ofsted, who reviewed the following service areas: Children's Centres; Children's Homes; Schools; Special Education Needs Disabilities; Targeted Local Area Inspections.
- UK Border Agency Inspection, who reviewed recruitment and selection function.
- A peer review of planning policy systems.

70. Health and safety reporting arrangements were improved with more accurate incident reporting in relation to external contractors.

## **APPENDIX B: Update on improvements identified in the 2015/16 Annual Governance Statement**

Following the production of the Annual Governance Statement for 2015/16, two improvement actions were identified for 2016/17.

<b>No.</b>	<b>Actions to be taken</b>	<b>Lead Officer</b>
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
<p><u>Update:-</u> Following consultation on the Issues and Options stage County Durham Plan in Summer 2016, the intention was to develop a preferred options plan for consultation. This process was 'paused' as the government signalled the imminent release of the Housing White Paper and what was considered to be fundamental changes to the plan making process. The Housing White Paper was published on the 7 February 2017 and also signals an intention for further consultations, including on the methodology for developing a housing requirement associated with a local plan. It is expected that this will lead to a revised National Planning Policy Framework towards the end of the year. Comments to the Housing White Paper were required by the 2 May 2017.</p>		
2	Implement a new chief officer structure to reflect the challenges faced by the Council whilst building on existing organisational strengths	Chief Executive Officer
<p><u>Update:-</u> This action is complete. The revised chief officer structure reflects the challenges faced by the Council whilst building on existing organisational strengths and delivering savings through more efficient ways of working. The service grouping for Adult and Health Services and Children and Young People's Services were split, and new structures developed under respective, newly-appointed corporate directors. The service groupings for Neighbourhood Services and Regeneration and Economic Development were merged to form Regeneration and Local Services. The new Transformation and Partnership Service will oversee delivery of the Transformation Programme, which will support the Council in becoming a leaner organisation, characterised by modern business practices, sustainable service delivery, excellence in customer service and a skilled and motivated workforce.</p>		

## **APPENDIX C: Proposed Governance Improvements required during 2017/18**

As a result of the review of governance arrangements, and the work of both internal and external audit, five improvement actions have been identified to further strengthen governance arrangements in 2017/18. These are shown in the table below.

<b>No.</b>	<b>Actions to be taken (cross-reference)</b>	<b>Lead Officer</b>
1	Assurance on the delivery of the Children's Services improvement plan will be provided through regular progress updates on the work of the Quality Improvement Board and the status of the tasks. Reports will be submitted to Corporate Management Team, Cabinet, the Local Safeguarding Children's Board, and relevant Council Committees and partners. (Appendix A, paragraphs 52 and 68)	Corporate Director, Children and Young People Services
2	Implement an action plan to enable approval of the County Durham Plan within the statutory requirements and the anticipated National Planning Policy Framework. (Appendix B, action 1)	Corporate Director, Regeneration and Local Services
3	Implement revised governance monitoring arrangements for companies in which the Council has a legal interest to ensure that they are fit for purpose. (Appendix A, paragraph 27)	Corporate Director, Resources
4	Implement arrangements to ensure that the Council complies with the General Data Protection Regulations 2018. (Appendix A, paragraph 57)	Director, Transformation and Partnerships
5	Monitor the arrangements for payments to agency workers across the Council to ensure that they are effective. (Paragraph 18)	Corporate Director, Resources

**Audit Committee****28 June 2017****Statement of Accounts for the year ended  
31 March 2017**

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**John Hewitt, Corporate Director of Resources**

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**Purpose of the Report**

- 1 To present to Members the Statement of Accounts for the year ended 31 March 2017 and raise any significant issues arising from the accounts.

**Background**

- 2 The 'Accounts and Audit Regulations 2015' stipulate 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 2017, 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.
- 3 The 'Accounts and Audit Regulations 2015' bring forward the timetable for the closure of the accounts in respect of the 2017/18 financial year. Therefore, local authorities will be required to publish their audited Statement of Accounts by the end of July 2018. Prior to that, as the period for the exercise of public rights must include the first 10 working days of June, the Council must publish the unaudited Statement of Accounts by the end of May 2018. As a result of this coming change in legislation the Council attempted a 'dry-run' for the early closure of the accounts for the year ended 31 March 2017 and I am pleased to report that this stage was completed on 31 May 2017.
- 4 The second stage, as set out in the Regulations, requires that on or before 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. With the agreement of our External Auditors we expect to present the Statement of Accounts for 2016/17 for approval at the Audit Committee on 31 July 2017.

- 5 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.
- 6 The attached Statement of Accounts is available for inspection by the public from 5 June 2017 to 14 July 2017 in line with the Regulations and has been published on our website.

### **Statement of Accounts**

- 7 The Statement of Accounts for the financial year 2016/17 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 2016/17' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 8 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.
- 9 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**

- 10 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.
- 11 There are six core statements that provide fundamental information on the financial activities and position of the Council:
  - ) Comprehensive Income and Expenditure Account (page 29)
  - ) Movement in Reserves Statement (page 30)
  - ) Balance Sheet (page 31)
  - ) Cash Flow Statement (page 32)
  - ) Housing Revenue Account (page 135) and
  - ) Collection Fund (page 138).
- 12 The Statement of Accounts also includes the accounts for Durham County Council Pension Fund (page 145) for which the Council is the Administering Authority.

- 13 The Statement of Accounts shows that the Council's 'net worth' has decreased in 2016/17 by £182.859 million to £385.270 million. This is mainly due to the increase in the Pensions Liability for employees, for which statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.
- 14 The Council has decreased its usable reserves during 2016/17.
- a) The general reserve has decreased by £6.097 million to £23.004 million. This reserve is held to cushion the impact of uneven cash flows, unexpected events or emergencies.
  - b) Earmarked reserves have decreased by £8.099 million to £233.544 million. Earmarked reserves are held for specific future purposes.
- 15 The Pension Fund accounts show that its net assets as at 31 March 2017 have increased by £371.238 million to £2.692 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**

- 16 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 recommendations for improvements, based on the position at 31 March 2017.

### **Recommendation**

- 17 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 2017.

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

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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 2017.

### **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 - 21	To offer interested parties an easily understandable effective guide to the most significant matters reported in the accounts.
Statement of Responsibilities for the Statement of Accounts	22 -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 - 28	Once the Audit is completed the Auditor's report will be included.
Durham County Council Core Financial Statements		
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.
Movement in Reserves Statement	30	This statement shows the movement in the year on the different reserves held by the Council analysed into 'usable' reserves and other reserves
Balance Sheet	31	The Balance Sheet shows the value as at the Balance Sheet date (31 March 2017 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	32	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	33 - 134	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.
The Housing Revenue Account (HRA)	135 - 137	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.

Item	Pages	Explanation of Purpose and Content
Collection Fund	138 - 144	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.
Durham County Council Pension Fund Accounts	145 – 189	Shows the operation and membership of the Pension Fund, the expenditure and income during the year and its financial position at 31 March 2017. Following the Accounts are notes providing further information.
Annual Governance Statement	190 - 211	Gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the Council.
Glossary of Terms used in the Accounts	212 - 228	To help the reader understand terminology used in the Statement of Accounts.



# Statement of Accounts

## For the year ended 31 March 2017

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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:

Corporate Director Resources  
Durham County Council  
County Hall  
Durham  
DH1 5UE

e-mail: [help@durham.gov.uk](mailto:help@durham.gov.uk)  
Telephone: 03000 260000

**John Hewitt C.P.F.A.**  
Corporate Director Resources

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## **1. Message from John Hewitt CPFA – Corporate Director Resources**

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

All plans setting out the aspirations and goals of the Council over the coming three 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 whole of the public sector generally.

It is the Council's view that the financial landscape for all local authorities is likely to remain challenging until at least 2020/21, resulting in the longest period of austerity in modern times. The added uncertainty brought about by the upcoming exit from the European Union will only serve to compound these issues.

By the end of 2016/17, the Council had delivered £185.7m of financial savings and our forecasts show that the Council will need to save an estimated further £59.6m of savings over the three year period 2017/18 to 2019/20, resulting in a cumulative spending reduction of over £245m in the period 2011/12 to 2019/20.

That said, the Council continues to deliver high standard and well regarded services. All service groupings of the Council continue to work together and build on our achievements in order to provide the best possible services for the people of County Durham.

The Council's Medium Term Financial Plan (MTFP) strategy for the last five years has been to protect front line services as far as possible and prioritise back office efficiencies and reductions in management. This strategy is becoming increasingly more difficult to maintain over time with the Council's Transformation Programme being developed to ensure all options are exhausted so front line services can be protected wherever possible. Front line services will however inevitably become increasingly impacted over the next three years, as the year on year cumulative impact of the scale of the cuts increasingly impacts on the resources the Council has available to provide key services.

This document presents the published accounts for Durham County Council for the year ended 31 March 2017 – 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, that it has been accounted for properly, that the financial standing of the Council continues to be safe and secure and 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.

**John Hewitt CPFA**  
**Corporate Director Resources**

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## 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 in order that they may:

- Understand the financial position of the Council and the outturn for 2016/17;
- Have confidence in the Council's stewardship of public money which 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).

This Narrative Report 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 2017 and an executive summary of the non-financial performance of the Council in 2016/17. The purpose is to provide an understandable guide of 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 forward look at the issues that have affected the Council's development, performance and position during 2016/17 and are likely to impact in the future. This foreword covers and is structured as below:

- 1 Message from the Corporate Director Resources
- 2 Introduction
- 3 An Introduction to Durham
- 4 An Introduction to Durham County Council
- 5 Financial Performance of the Council 2016/17
- 6 Non-Financial Performance of the Council 2016/17
- 7 Significant Issues for 2017/18 and Beyond
- 8 Corporate Risks
- 9 Summary Position
- 10 Receipt of Further Information
- 11 Explanation of Accounting Statements

## 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 is 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.

Interesting facts about your county:

- County Durham has a population of 519,695 the highest population of any local authority area in the North East region;
- 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 3.1% since 2001 but the population aged 65+ has increased by 26.4% 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 authority providing the full range of local government services to the public.

Interesting facts about your council:

- Durham County Council has a gross budget of over £880m 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 238 schools (excluding academies);
- There are 241,000 domestic and 15,000 business premises in the County;

- 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 after the County Council elections on 4 May 2017 is as follows:
  - 73 Labour,
  - 14 Liberal Democrat,
  - 13 Durham Independent Group,
  - 10 Conservative,
  - 9 Durham County Council Independent Group,
  - 5 Spennymoor Independent Group,
  - 1 not aligned to any political group,
  - and 1 vacancy;
- 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 2016/17**

### **Revenue Outturn Position**

The Council's revenue outturn is shown in the following table. The original budget of £413.346m was approved at the Council meeting on 24 February 2016. 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 to the Council's budget were approved by Cabinet.

In overall terms, the outturn was an underspend of £11.452m for the financial year when comparing actual net expenditure to the revised budgeted/planned net expenditure. The underspend represents 2.7% of the revised total net expenditure budget. The surplus for the year in respect of Service Groupings (£5.552m) has been allocated to the individual Cash Limit Reserves to meet future service demands. The remaining £5.900m 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>				
Adult and Health Services	158,665	163,830	159,084	-4,746
Children and Young People's Services	96,429	114,748	118,608	3,860
Regeneration and Local Services	125,882	104,429	101,669	-2,760
Resources	16,282	18,432	16,631	-1,801
Transformation and Partnerships	9,448	13,426	13,321	-105
<b>Sub - Total</b>	<b>406,706</b>	<b>414,865</b>	<b>409,313</b>	<b>-5,552</b>
<b>Corporate Finance</b>				
Contingencies	6,194	4,252	-	-4,252
Centrally Held Budgets	-	-1,572	-1,572	-
Corporate Costs	4,235	4,944	4,701	-243
Capital, Treasury and Technical Accounting	-19,718	-11,257	-12,469	-1,212
Levies	15,929	15,929	15,929	-
<b>Sub - Total</b>	<b>6,640</b>	<b>12,296</b>	<b>6,589</b>	<b>-5,707</b>
<b>Total Net Expenditure</b>	<b>413,346</b>	<b>427,161</b>	<b>415,902</b>	<b>-11,259</b>
<b>Funded By:</b>				
Council Tax	-185,798	-185,798	-185,802	-4
Use of (-) / contribution to earmarked reserves	-11,621	-14,050	-14,050	-
Estimated net surplus on Collection Fund	-2,617	-2,617	-2,617	-
Start up Funding Assessment	-192,977	-192,977	-193,021	-44
New Homes Bonus	-10,182	-10,182	-10,182	-
New Homes Bonus - Re-imbursment	-267	-267	-267	-
Section 31 Grant	-4,267	-4,267	-4,400	-133
Education Services Grant	-5,407	-5,407	-5,419	-12
Forecast contribution to / from (-) Cash Limit Reserve	-210	-11,596	-11,596	-
<b>Total Funding</b>	<b>-413,346</b>	<b>-427,161</b>	<b>-427,354</b>	<b>-193</b>
<b>Variance</b>	<b>-</b>	<b>-</b>	<b>-11,452</b>	<b>-11,452</b>

The main variances contributing to the net underspend are as follows:

- In Adult and Health Services (AHS) the early achievement of a number of future MTFP savings from management and support service proposals across the Adult Care and related areas, together with the careful management and control of vacant posts and supplies and services budgets across the service has created a net underspend for the year of £4.6m
- In Children and Young People's Services (CYPS) Children's Services was £4.626m over budget for the year. This is primarily related to costs associated with Children's placements, both those who have a legal status of looked after and those young people in permanent placements that are financially supported by the Council, details as follows:

- Young people requiring to be looked after is a volatile and high cost area of activity within CYPS and current external demographic demands are creating a strain on the service both in terms of staffing and financial resource allocation. The additional demand on the service has been recognised and growth funding has been agreed in 2017/18 to address the identified staffing pressure (£1.384m) and placement costs for young people with a legal status of looked after and those young people accommodated in other placement arrangements that incur costs to the authority (£2.735m). Work actively continues to try to address the placement mix of young people looked after, focusing on increasing the proportion of placements in higher quality low cost in-house foster care but the current numbers and mix of placements is leading to an overspend when combined with non Looked After Children (LAC) permanent placements of £4.192m.
- £4.252m of the Contingencies budget remained unspent at the end of the financial year; and
- There has been an overachievement of investment income of £1.368m which is mainly due to the higher than anticipated levels of cash balances held during 2016/17. This is due to capital expenditure being below base budget levels and generally higher than forecast cash balances.

### **Capital Outturn Position**

The original General Fund capital budget for 2016/17, taking into account the budgets approved by Council on 24 February 2016 and adjustments for re-profiling of underspends at 2015/16 year end was £126.090m. This was agreed by Cabinet on 13 July 2016.

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 2017 have also been considered by MOWG.

The Council spent £107.141m on its Capital Programme in 2016/17 compared to the revised forecast spend of £112.829m. 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 following table:

	Revised Budget	Service Groupings Final Outturn	Variance
	£'000	£'000	£'000
<b>Service Groupings</b>			
Adult and Health Services	896	633	-263
Children and Young People's Services	24,901	21,499	-3,402
Regeneration and Local Services	78,811	78,656	-155
Resources	4,179	3,856	-323
Transformation and Partnerships	4,042	2,497	-1,545
<b>Total</b>	<b>112,829</b>	<b>107,141</b>	<b>-5,688</b>
<b>Funded By:</b>			
Grants and Contributions	-37,544	-47,150	-9,606
Revenue and Reserves	-2,040	-20,398	-18,358
Capital Receipts	-8,728	-7,649	1,079
Borrowing	-64,517	-31,944	32,573
<b>Total</b>	<b>-112,829</b>	<b>-107,141</b>	<b>5,688</b>

The variance between the revised capital budget and the final outturn for the year was £5.688m. This underspend of planned expenditure will be re-profiled into 2017/18 and future years together with the associated financing and therefore this does not represent a financial issue for the Council.

### Other Key Financial Items in 2016/17

#### Material Assets and Liabilities:

- As at 31 March 2017, the Council held £1,692.139m of Long Term Assets, £241.600m of Current Assets, £113.096m of Current Liabilities and £1,435.373m of Long Term Liabilities.
- Long Term Assets have increased by £60.295m, which is mainly due to an increase in the value of £54.214m in Property, Plant and Equipment assets.
- Current Assets have reduced by £23.585m, which includes the following significant items:
  - A reduction of £16.568m 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 £3.670m in Short Term Debtors.
  - A reduction of £4.133m in Cash and Cash Equivalents due to investment management activities and day to day cash flow changes.

- Current Liabilities have decreased by £15.600m, which includes the following significant items:
  - A reduction of £10.201m in Short Term Borrowing due to the lower value of loans maturing in 2017/18.
  - A reduction of £5.131m in Short Term Creditors.
- Long Term Liabilities have increased by £235.169m, which includes the following significant items:
  - An increase of £20.005m in Long Term Borrowing, reflecting new loans taken out in 2016/17.
  - An increase of £214.706m in Other Long Term Liabilities mainly due to an increase of £215.992m in the Pension Fund Liability. This is as a result of the financial assumptions used by the Pension Fund Actuary (Aon Hewitt). These assumptions are determined by the Actuary and represent the market conditions at the reporting date. The Council relies and places assurance on the professional judgement of the Actuary and the assumptions used to calculate this actuarial valuation. Further details are given in Note 46.

#### Council's Borrowing Position

- The General Fund Medium Term Financial Plan 2016/17 to 2019/20 and Revenue and Capital Budget 2016/17 Report, approved by Council on 24 February 2016, details the 2016/17 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 2016/17 were as follows:
  - Authorised limit for external debt of £552m
  - Operational boundary for external debt of £499m
- As part of the Council's Treasury Management service, these indicators are monitored on a daily basis, and neither was exceeded during 2016/17. The highest level of external debt incurred by the Council during the year was £255.639m.

## 6. Non-Financial Performance of the Council 2016/17

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 presented to 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 2016/17, 70% (40) of our target indicators improved or maintained performance and 69% (41) were approaching, meeting or exceeding target. For tracker indicators, 66% (58) improved or maintained performance. 90% (186) of Council Plan actions have been achieved or are on target to be achieved by the deadline.

You will be able to find the full Quarter Four 2016/17 Performance Management Report on the Durham County Council website after it is approved by Cabinet on 14 June 2017.

## Council Plan

The three year, high level plan is underpinned by a series of service plans and links closely with the Medium Term Financial Plan (MTFP). It sets out how Durham County Council is to consider corporate priorities for improvement, and the key actions to be taken to deliver the longer-term goals in the Sustainable Community Strategy and improvement agenda.

There are five priority themes for County Durham, plus an additional one specifically for the Council. Each of these priorities, alongside the main objectives and achievements are set out below:

- **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

- Attracted Hitachi Rail Europe to Newton Aycliffe generating over 900 jobs.
- Adopted an innovative approach to business and supported the UK's first digital bank in establishing its headquarters in Durham City.
- Digital Durham bringing superfast broadband to the county.
- Successfully launched 'This is Durham – Place of Light'.
- Spectacular programme of cultural events set to provide a multi-million pound boost to tourism and the local economy.

- Transfer of housing stock to County Durham Housing Group Limited paving the way for over 700 homes to be built within the first seven years and securing £800m investment over 30 years.
  - Established Chapter Homes Durham Limited (one of the first local authorities to establish a market housing company).
  - Process in the region of 3,000 planning applications each year.
  - Provided business units for over 300 businesses, employing over 1,600 people.
  - Started a Durham County Records Office internship programme with Durham University.
  - Durham at War project (2014-2018) awarded £0.475m Heritage Lottery Fund grant to create interactive mapping website, recruit and train volunteers to research and upload over 5,000 stories of County Durham people in the First World War.
- **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

- 94.8% of children offered first choice placement at primary and 98.3% were allocated one of their top three choices at secondary phase.
- Youth Employment Initiative.
- Participation of vulnerable groups of young people in Education, Employment and Training.
- Transition of statements to Education, Health and Care Plans (EHCPs) and compliance of 20 week turnaround for new assessments with parental / young person satisfaction above national level.
- Early Year's outcomes in line with national figures for the first time in the history of Durham.
- Percentage of pupils attending a good or better school.
- Primary phase results are above national average in all assessed areas.
- Percentage of eligible 2 year olds receiving an offer of 15 hours is significantly above national average.
- Outcomes for Looked After Children above national and regional levels in every area.
- Continued very high voluntary buy-back of school improvement services, indicating high levels of confidence in the support the Local Authority offers.
- Quality Improvement Framework developed and introduced to create a culture of quality.
- Reduced social worker caseloads.

- 11 Families First Teams created with the intention of providing a comprehensive family support service to families with complex needs.
- Improved focus on child neglect.
- Many more families living in disadvantaged areas in regular contact with our Children's Centres following implementation of the Early Years Review.
- Award for County Durham Youth Offending Service at the 2017 National Shine a Light Awards.
- County Durham Youth Offending Service in partnership with Public Health have completed the first ever Health Needs Assessment of young people who offend.
- Growth in the number of organisations delivering transitional services between children's and adult services (i.e. Community Outreach, Day Care Services, Befriender Services)

- **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**

- First year of new 0-19 health service, health visitors and school nurse service with some positive changes:
- Employment of five emotional wellbeing nurses
- Implementation of the home environment checklist
- YAM pilot (youth aware mental health) commenced with year 9 students
- Vulnerable parent pathway commenced.
- Oral Health Strategy launched highlighting the significant inequalities in poor oral health for children across the County – work progressing with early years providers to encourage families to visit the dentist regularly and reduce sugar content of food.
- Smoking rates continue to decline.
- Introduction of the Assessment of Service Quality which ensures that providers are delivering high quality services.
- The Wellbeing for Life service, which works closely with communities to improve health and wellbeing has exceeded all targets with over 4,000 people making positive changes to their behaviour.
- Development of a new mental health promotion and prevention model.
- Positive performance for delayed transfers of care show that the target set of 387.6 per 100,000 population aged 18 and over has been exceeded.

- High usage (over 858,000 viewings) of the online service directory application 'Locate' which enables the public to have greater control over choosing their health and care services
- A six-out-of-six rating awarded to Durham Health and Wellbeing Board by the National Energy Action for progress on fuel poverty.
- Durham Humanitarian Support partnership established to support the settlement of Syrian Refugee families into the County

- **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

- Seizure of £0.430m worth assets from people committing crimes which harm the community.
- Seizure of over 480,000 cigarettes, more than 70kg of illicit hand rolled tobacco and over £0.050m in raids linked to the supply of suspected illicit tobacco carried out by the Consumer Protection Team between 2015 and now.
- Road safety improved through the introduction of 20 mph safety zones.
- Coordinated and led the operational response to flooding events and provided a high quality winter maintenance service.
- Successful launch of Dying to be Cool campaign including school assemblies and educational video for Safe Durham Partnership – this helped reduced deaths and near misses from 20 in 2014/15 to 7 last year

- **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

- Development of the Air Quality Action Plan for Durham City to reduce the levels of Nitrogen Dioxide from vehicle emissions.
- Achieved maximum 3 star efficiency rating from DfT (one of only 2 in the country).

- Awarded 14 Green Flags for Parks and Cemeteries (the most in the North East).
  - Gold awards for Britain in Bloom and Northumbria in Bloom for Durham City.
  - Received national recognition for tackling envirocrime (fly-tipping).
  - 71 successful prosecutions for fly-tipping since the launch of Operation Stop It.
  - £3m redevelopment of Wharton Park and £1.75m investment in 45 playground sites (ongoing).
  - Finalist in the Local Government Chronicle Awards for community resilience to flooding.
- **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**

- Ongoing development and delivery of the Council's Medium Term Financial Plan.
- The External Auditor's VFM conclusion identified that the Council has proper arrangements to secure financial resilience.
- A sound financial position considering current austerity measures across the public sector.
- Developed the open channel software to enable residents to self-serve e.g. submit single persons discount form.
- Improved performance in benefit processing, recovery of Council Tax and Business Rates and Invoice Payments.
- Successfully managed the Police and Crime Commissioner election in May 2016, European Referendum in June 2016 and County and Parish Council elections in May 2017 with preparations progressing for the General election in June 2017.
- The Property, Planning and Projects legal team were runners up in the Lawyers in local Government Place awards 2016.
- Judiciary recognise the Childcare team as leaders in provision of electronic bundles for cases despite the number of care proceedings almost doubling in the last two years.
- The Litigation team confirmed as providing best value for money in delivering employers liability claims, and have also started to secure funds via Proceeds of Crime applications.
- New online transaction capability for customers.
- A new corporate Customer Relationship Management system.
- System upgrades for increased security against ransomware.

- New face to face customer service facilities, including shared services.
- Simplified telephony: fewer telephone numbers.
- At the forefront of Counter Fraud activity in Local Government across the North East and Nationally. Including joint working with Durham Police in tackling the risk of serious and organised crime across the County
- The County Council won the Municipal Journal award for Excellence in Governance and Scrutiny.
- Continue to develop the Council's Area Action Partnerships. Since they were launched forum membership has grown to over 14,000, and over 4,000 projects have been delivered which have attracted over £48m of matched funding.
- Continue to support local residents and communities in responding to issues of poverty and changes to welfare.
- A comprehensive Budget and Medium Term Financial Plan consultation was carried out which engaged with over 3,000 people.
- Continue to develop our online presence with over 15 million impressions reached on Twitter. We have also grown Facebook followers to over 23,000 and users of our website to over 200,000.
- Established an overarching Transformation Programme for the Council which over the next 5 years aims to:
  - Use our available resources in a more effective way to achieve the best possible outcomes for the people of Durham
  - Help communities to become more resilient
  - Move partnership working from good to great
  - Ensure the Council is renowned for its skilled and flexible workforce and its employee engagement

## 7. Significant Issues for 2017/18 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 process is on-going, will last until at least 2019/20 and will be continuously reviewed as the Council develops a stronger understanding of the financial challenges it faces.

Government figures highlight significant challenges ahead for councils which 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.

## **Brexit**

While unclear what the local implications will be, the impact of leaving the European Union (EU) may lead to increased instability and uncertainty in respect of the financial context for councils and regions.

Following the referendum result on 23 June 2016 which meant that the United Kingdom was to leave the EU, the Prime Minister triggered Article 50 on 29 March 2017 which formally began this process. The implications of leaving the EU are not fully known but there could be a potential impact for the Council due to reductions in EU funding, a change in interest rates, an increase in expenditure and an increase in the cost of basic goods which could impact on residents and businesses.

In the 2014 – 2020 EU programming period, the North East Local Enterprise Partnership (LEP) area was allocated approximately £438.5m of European Funding, with £129m specific to County Durham. In County Durham schemes totalling £30.2m are signed off with a further £20.8m of projects pending. No assurances have been given with regards to the remaining funding and as a result the amount of funding at risk is £78m which could rise to £98.8m if the projects pending don't get final sign off.

It is too early to understand the full implications of Brexit on jobs and investment in the County until the trade negotiations begin in earnest.

The Council has already seen a reduction in investment income as a result of interest rate uncertainty. As there is still a degree of doubt, the risk associated with leaving the EU is not measurable.

## **8. Corporate Risks**

The Council has an embedded process to manage any 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 final 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 the Payment Card Industry Data Security Standard 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.
- Failure to protect a child from death or serious harm (where service failure is a factor or issue);
- A service failure of Adult Safeguarding leads to death or serious harm to a service user;

- Major Interruption to IT Service Delivery.

## 9. Summary Position

It is clear that the Council's financial and non-financial performance in 2016/17 continues to be good. The revenue outturn with a £11.452m underspend is in line with expectations, 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 2017/18 and future years.

In 2016/17, the Council has faced and dealt successfully with significant change. This trend will continue but the Council is well placed to adapt to the challenges and 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 2017/18.

## 10. Receipt of Further Information

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

## 11. Explanation of Accounting Statements

### Main Changes

Following the "Telling the Story" changes to the CIPFA Code of Practice on Local Authority Accounting 2016/17 a number of amendments have been made to the Council's core financial statements and supporting disclosure notes. This includes a simplified Movement in Reserves Statement and a Comprehensive Income and Expenditure Statement (CIES) presented in the Council's reporting format where previously the Net Cost of Services has been reported by SeRCOP classification. In line with International Financial Reporting Standards a full retrospective restatement of the 2015/16 Comprehensive Income and Expenditure Statement has been included within the 2016/17 Statement of Accounts.

### 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.

### 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.

### **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.

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## **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.

On 13 April 2015 the Council's housing stock was transferred to County Durham Housing Group. The HRA disclosures are abbreviated and show only those notes where there were transactions and balances in 2015/16.

## **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 2017. 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 Corporate Director Resources**

I certify that the Statement of Accounts, which includes the Pension Fund financial statements, presents a true and fair view of the financial position of the Council as at 31 March 2017 and its expenditure and income for the year ended 31 March 2017.

John Hewitt

Corporate Director Resources

31 May 2017

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

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Movement in Reserves Statement

2016/17:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
<b>Balance at 1 April 2016 brought forward</b>	29,101	241,643	362	524	271,630	296,498	568,128
<b>Movement in Reserves during 2016-17</b>							
Total Comprehensive Income and Expenditure	-56,248	-	-	-	-56,248	-126,610	-182,858
Adjustments between accounting basis and funding basis under regulations (Note 9)	42,052	-	-	-524	41,528	-41,528	-
<b>Net Increase/Decrease in Year before Transfers to Earmarked Reserves</b>	<b>-14,196</b>	<b>-</b>	<b>-</b>	<b>-524</b>	<b>-14,720</b>	<b>-168,138</b>	<b>-182,858</b>
Transfers to/from Earmarked Reserves (Note 10)	8,099	-8,099	-	-	-	-	-
<b>Balance at 31 March 2017 carried forward</b>	<b>23,004</b>	<b>233,544</b>	<b>362</b>	<b>-</b>	<b>256,910</b>	<b>128,360</b>	<b>385,270</b>

2015/16:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
<b>Balance at 1 April 2015 brought forward</b>	28,897	214,557	26,078	219	609	270,360	196,187	466,547
<b>Movement in Reserves during 2015-16</b>								
Total Comprehensive Income and Expenditure	-67,444	-	111,180	-	-	43,736	57,845	101,581
Adjustments between accounting basis and funding basis under regulations (Note 9)	71,577	-	-114,101	143	-85	-42,466	42,466	-
<b>Net Increase/Decrease in Year before Transfers to Earmarked Reserves</b>	<b>4,133</b>	<b>-</b>	<b>-2,921</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 10)	-3,929	27,086	-23,157	-	-	-	-	-
<b>Balance at 31 March 2016 carried forward</b>	<b>29,101</b>	<b>241,643</b>	<b>-</b>	<b>362</b>	<b>524</b>	<b>271,630</b>	<b>296,498</b>	<b>568,128</b>

<b>31 March 2016</b>		<b>31 March 2017</b>	
<b>£000</b>	<b>Notes</b>	<b>£000</b>	
1,578,946	Property, Plant & Equipment	14	1,633,160
15,445	Heritage Assets	15, 49	15,747
2,267	Investment Property	16	3,694
1,177	Intangible Assets		1,987
12,327	Long Term Investments	17	13,735
21,682	Long Term Debtors	17	23,816
<b>1,631,844</b>	<b>Long Term Assets</b>		<b>1,692,139</b>
156,631	Short Term Investments	17	140,063
6,660	Assets Held for Sale	22	8,604
5,066	Inventories	19	3,908
57,402	Short Term Debtors	20	53,732
39,426	Cash and Cash Equivalents	21	35,293
<b>265,185</b>	<b>Current Assets</b>		<b>241,600</b>
-436	Cash and Cash Equivalents	21	-1,953
-13,080	Short Term Borrowing	17	-2,879
-107,449	Short Term Creditors	23	-102,318
-3,397	Provisions	24	-2,829
-4,334	Capital Grants Receipts in Advance	38	-3,117
<b>-128,696</b>	<b>Current Liabilities</b>		<b>-113,096</b>
-14,157	Provisions	24	-14,615
-236,221	Long Term Borrowing	17	-256,226
-949,826	Other Long Term Liabilities	41, 42, 46	-1,164,532
-	- Capital Grants Receipts in Advance	38	-
<b>-1,200,204</b>	<b>Long Term Liabilities</b>		<b>-1,435,373</b>
<b>568,129</b>	<b>Net Assets</b>		<b>385,270</b>
271,630	Usable Reserves	25	256,910
296,499	Unusable Reserves	26	128,360
<b>568,129</b>	<b>Total Reserves</b>		<b>385,270</b>

Cash Flow Statement

---

<b>2015-16</b>		<b>2016-17</b>
<b>£000</b>		<b>£000</b>
-43,736	Net surplus (-) or deficit on the provision of services	56,248
-121,578	Adjustments to net surplus or deficit on the provisions of services for non-cash movements (Note 25)	-100,388
124,027	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 26)	7,160
-41,287	Net Cash flows from Operating Activities	-36,979
-5,736	Investing Activities (Note 28)	59,285
81,221	Financing Activities (Note 29)	-16,655
34,198	Net increase (-) or decrease in cash and cash equivalents	5,650
73,188	Cash and cash equivalents at 1 April	38,990
<b>38,990</b>	<b>Cash and cash equivalents at 31 March</b>	<b>33,340</b>

## Notes to the Accounts

### Notes to the Accounts

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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.**

## Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Council is required by the Accounts and Audit Regulations 2015 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 2016/17 (the Code) and the Service Reporting Code of Practice 2016/17 (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 £10,000 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 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 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 and Young People's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The Adult and Health Services 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 2.6% (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. Unlisted 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 Corporate 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 Corporate 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 financial 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 Financial Assets**

Available-for-sale financial 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 – at cost.

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 has 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.

### **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.

If you would like more information about Durham County Council's heritage assets, contact details can be found on the front page of this document.

## **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 2016/17 (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 Costs - costs relating to the Council's status as a multifunctional, democratic organisation and the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

This is a new heading from 2016/17 onwards in the Comprehensive Income and Expenditure Statement, within the net cost of services, to reflect the revised presentation of financial statements as required by the Code of Practice 2016/17. This replaces the previous headings of Corporate and Democratic Core and Non Distributed Costs.

## 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. All valuations undertaken in 2016/17 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 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 2017/18 Code:

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures: Investment Entities – Applying the Consolidation Exception.

The Code requires implementation from 1 April 2017, however, the amendments to these standards do not apply to local authorities as they are not investment entities, therefore there is no impact on the 2016/17 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 2016/17. 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 £21.410m. Further details can be found in Note 42.

- 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	11	138	13	9	171
b)	Voluntary Controlled (VC)	-	15	-	-	15
b)	Voluntary Aided (VA)	-	47	1	-	48
c)	Foundation	-	-	2	-	2
d)	Alternative Provision	-	-	-	1	1
d)	Endowed Parochial	-	1	-	-	1
	<b>Maintained Schools</b>	<b>11</b>	<b>201</b>	<b>16</b>	<b>10</b>	<b>238</b>
e)	Academies	-	14	12	1	27
	<b>Total</b>	<b>11</b>	<b>215</b>	<b>28</b>	<b>11</b>	<b>265</b>

- 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.
- 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.
- 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 Woodlands (Alternative Provision) 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 39. 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 2016/17.
- 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 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	The 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 CIES.  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.
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	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 £51.15m. 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

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 47 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 2017/18 is uncertain. Based on previous experience, an amount of £2.763m has been classified as short term to reflect the likely use of this provision in 2017/18.	If the short term provision is not used during 2017/18, the annual review of the insurance provision will ensure that an appropriate amount is included in the 2017/18 accounts.

Item	Uncertainties	Effect if actual results differ from assumptions
Arrears	At 31 March 2017, the Authority had a balance of debtors of £75.03m. A review of significant balances suggested that an impairment of doubtful debts of 33.20% (£24.91m) 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 £24.91m to be set aside as an allowance.

## 5. Material Items of Income and Expense

There are no material items of Income and Expenditure to be disclosed separately in the Statement of Accounts in 2016/17.

## 6. Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Corporate Director Resources on 31 May 2017. 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 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### Academy Schools

Three local authority schools are due to convert to Academy status during 2017/18 which was a non-adjusting event in 2016/17. This change in status will lead to the removal of these schools from the Balance Sheet in 2017/18 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 £4.257m.

## 7. Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the Council (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by Councils in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's services.

Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015-16				2016-17		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund Balance	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
144,714	-384	144,330	Adult and Health Services	158,223	-1,385	156,838
71,830	25,260	97,090	Children and Young People's Services	75,387	43,113	118,500
108,756	42,992	151,748	Regeneration and Local Services	103,722	23,144	126,866
13,327	-173	13,154	Resources	13,585	555	14,140
7,538	2,324	9,862	Transformation and Partnerships	9,316	3,514	12,830
4,181	3,430	7,611	Corporate Costs	4,701	942	5,643
2,580	-	2,580	Housing Revenue Account (HRA)*	-	-	-
<b>352,926</b>	<b>73,449</b>	<b>426,375</b>	<b>Net Cost of Services</b>	<b>364,934</b>	<b>69,883</b>	<b>434,817</b>
-395,776	-74,335	-470,111	Other Income and Expenditure	-388,581	10,012	-378,569
41,639	-41,639	-	Adjustments between Funding and Accounting basis outside the CIES	37,842	-37,842	-
<b>-1,211</b>	<b>-42,525</b>	<b>-43,736</b>	<b>Surplus or Deficit</b>	<b>14,195</b>	<b>42,053</b>	<b>56,248</b>
-269,533			Opening General Fund and HRA Balance (including earmarked reserves) at 1 April	-270,744		
-1,211			Less Surplus or Deficit on General Fund and HRA Balance in year	14,195		
<b>-270,744</b>			<b>Closing General Fund Balance (including earmarked reserves) at 31 March</b>	<b>-256,549</b>		

\* On 13 April 2015, the Council's housing stock was transferred to County Durham Housing Group.

### Note to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to net expenditure chargeable to the General Fund balance to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

2015-16				2016-17				
Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments	Adjustments between Funding and Accounting Basis	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
£000	£000	£000	£000		£000	£000	£000	£000
1,251	-1,471	-164	-384	Adult and Health Services	787	-2,175	3	-1,385
29,375	-2,980	-1,135	25,260	Children and Young People's Services	49,889	-3,619	-3,157	43,113
46,452	-3,093	-367	42,992	Regeneration and Local Services	26,365	-3,225	3	23,143
2,215	-2,272	-116	-173	Resources	2,607	-2,049	-3	555
2,718	-373	-21	2,324	Transformation and Partnerships	4,011	-496	-1	3,514
-	3,430	-	3,430	Corporate Costs	-	942	-	942
<b>82,011</b>	<b>-6,759</b>	<b>-1,803</b>	<b>73,449</b>	<b>Net Cost of Services</b>	<b>83,659</b>	<b>-10,622</b>	<b>-3,155</b>	<b>69,882</b>
-103,171	28,836	-	-74,335	Other Income and Expenditure from the Funding Analysis	-19,507	29,519	-	10,012
-40,339	-	-1,300	-41,639	Adjustments between Funding and Accounting basis outside the CIES	-33,987	-	-3,855	-37,842
<b>-61,499</b>	<b>22,077</b>	<b>-3,103</b>	<b>-42,525</b>	<b>Difference between surplus or deficit on General Fund and HRA Balance in year and CIES surplus or deficit</b>	<b>30,165</b>	<b>18,897</b>	<b>-7,010</b>	<b>42,052</b>

### Adjustments for capital purposes

- **For services** - adds in depreciation, amortisation, revenue expenditure funded from capital under statute, impairment and revaluation gains and losses
- **Other Income and Expenditure:**
  - **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
  - **Financing and investment income and expenditure** – adjusts for movements in the fair value of investment properties
  - **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.
- **Adjustments between Funding and Accounting basis outside the CIES** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

### Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

- **Financing and investment income and expenditure** – the net interest on the defined benefit liability.

### Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- **For services** this represents the movement in the accrual made for the cost of employee holiday entitlements
- **Adjustments between Funding and Accounting basis outside the CIES:**
  - represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.
  - recognises adjustments to the General Fund for the timing differences for premiums and discounts.

## 8. Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows. This is made up of expenditure and income both within and outside of the cost of services in the Comprehensive Income and Expenditure Statement, and reconciles to the surplus or deficit on the provision of services.

2015-16		2016-17
£000		£000
	<b>Expenditure</b>	
502,603	Employee benefits expenses	504,123
41,624	Premises	44,601
39,673	Transport	38,845
120,648	Supplies and services	111,515
270,883	Third party payments	285,389
203,576	Transfer payments	206,297
55,755	Depreciation and amortisation	58,382
46,933	Other capital charges	39,971
27,475	Precepts and levies	27,442
185,802	Amounts of non-current assets written off on disposal	19,207
15,110	Interest payable	14,212
77,435	Premium payable on repayment of debt	-
40,724	Other expenditure	36,251
<b>1,628,241</b>	<b>Total Expenditure</b>	<b>1,386,235</b>
	<b>Income</b>	
-129,230	Fees, charges and other service income	-128,028
-127,997	Capital receipts	-6,790
-241,588	Council Tax and non domestic rates	-258,547
-1,082,071	Grants and contributions	-836,764
-91,091	Other income	-99,858
<b>-1,671,977</b>	<b>Total Income</b>	<b>-1,329,987</b>
<b>-43,736</b>	<b>Surplus or Deficit on Provision of Services</b>	<b>56,248</b>

## 9. 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.

2016/17:

	Usable Reserves			
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £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)	-18,897	-	-	18,897
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	122	-	-	-122
• Council Tax and NDR (transfers to or from Collection Fund)	3,733	-	-	-3,733
• Holiday pay (transferred to the Accumulated Absences Reserve)	3,154	-	-	-3,154
• 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):				
o Depreciation and amortisation of non-current assets	-58,381	-	-	58,381
o Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties	-24,071	-	-	24,071
o Amounts of non-current assets written off on disposal or sale	-19,187	-	-	19,187
o Revenue expenditure funded from capital under statute	-15,900	-	-	15,900
o Capital grants and contributions credited to the CI&E Statement	46,626	-	-	-46,626
<b>Total Adjustments to Revenue Resources</b>	<b>-82,801</b>	<b>-</b>	<b>-</b>	<b>82,801</b>
<b>Adjustments between Revenue and Capital Resources</b>				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	6,770	-6,246	-	-524
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	-8	8	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	13,589	-	-	-13,589
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	20,398	-	-	-20,398
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>40,749</b>	<b>-6,238</b>	<b>-</b>	<b>-34,511</b>
<b>Adjustments to Capital Resources</b>				
Use of the Capital Receipts Reserve to finance capital expenditure	-	7,648	-	-7,648
Application of capital grants unapplied to finance capital expenditure	-	-	524	-524
Cash payments in relation to deferred capital receipts	-	-1,410	-	1,410
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>6,238</b>	<b>524</b>	<b>-6,762</b>
<b>Total Adjustments</b>	<b>-42,052</b>	<b>-</b>	<b>524</b>	<b>41,528</b>

2015/16:

	Usable Reserves				Movement in Unusable Reserves £000
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £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>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	-	-
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 Resources</b>	<b>53,267</b>	<b>115,035</b>	<b>-123,994</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
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>85</b>	<b>-123,936</b>
<b>Total Adjustments</b>	<b>-71,577</b>	<b>114,101</b>	<b>-143</b>	<b>85</b>	<b>-42,466</b>

## 10. Transfers to/from Earmarked Reserves

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

	Balance at 1 April 2015 £000	Transfers out 2015-16 £000	Transfers in 2015-16 £000	Balance at 31 March 2016 £000	Transfers out 2016-17 £000	Transfers in 2016-17 £000	Balance at 31 March 2017 £000
<b>General Fund:</b>							
Balances held by schools under a scheme of delegation	24,246	-163	-	24,083	-4,247	-	19,836
Budget Support Reserve	-	-	30,000	30,000	-1,624	14,246	42,622
Business Growth Fund Reserve	913	-97	-	816	-52	-	764
Capital Expenditure Reserve	2,802	-3,802	1,000	-	-	-	-
Cash Limit Reserves	22,363	-15,107	15,044	22,300	-11,596	5,552	16,256
Children's Services Reserve	4,712	-1,328	2,451	5,835	-3,251	2,402	4,986
Continuing Professional Development Reserve	1,035	-	167	1,202	-15	-	1,187
Corporate Reserve - Demographic Pressures	23,600	-23,600	-	-	-	-	-
Culture and Sport Reserve	3,193	-753	673	3,113	-1,818	1,252	2,547
Customer Services Reserve	373	-140	-	233	-23	-	210
Direct Services Reserve	3,193	-741	673	3,125	-2,139	1,608	2,594
DSG Reserve	10,364	-	1,821	12,185	-1,025	-	11,160
Economic Development Reserve	1,486	-373	211	1,324	-35	1,140	2,429
Education Reserve	2,440	-352	1,566	3,654	-399	5,789	9,044
Employability and Training Reserve	458	-229	1,478	1,707	-1,683	103	127
Env. Health and Consumer Protection Reserve	850	-70	33	813	-105	-	708
Equal Pay Reserve	14,116	-4,798	210	9,528	-641	11,253	20,140
Funding and Programmes Management Reserve	140	-	14	154	-	234	388
Housing Regeneration Reserve	410	-112	22	320	-70	841	1,091
Housing Solutions Reserve	867	-19	295	1,143	-121	307	1,329
Housing Stock Transfer Reserve	-	-	1,000	1,000	-1,000	-	-
Human Resources Reserve	65	-	-	65	-57	89	97
Inspire Programme Reserve	-	-	-	-	-	2,664	2,664
Insurance Reserve	15,603	-7,000	1,626	10,229	-2,600	2,363	9,992
Local Council Tax Support Scheme Reserve	1,031	-1,031	-	-	-	-	-
MTFP Redundancy and Early Retirement Reserve	10,881	-7,023	10,000	13,858	-5,849	4,812	12,821
Neighbourhoods AAP Reserve	40	-	8	48	-3	-	45
North Pennines AONB Partnership Reserve	329	-124	-	205	-	123	328
Office Accommodation Capital Reserve	8,000	-	34,481	42,481	-1,836	-	40,645
Office Accommodation Project Support Reserve	1,007	-310	-	697	-621	-	76
Pension Deficit Reserve	-	-	10,000	10,000	-10,000	-	-
Performance Reward Grant Reserve	1,043	-358	-	685	-47	-	638
Planned Delivery Programme (PDP) Reserve	20,000	-20,000	-	-	-	-	-
Planning Reserve	1,423	-174	80	1,329	-298	220	1,251
Public Health Reserve	4,983	-3,734	3,705	4,954	-2,109	590	3,435
REAL Match Fund Programme Reserve	1,344	-50	718	2,012	-457	180	1,735
Resources Corporate Reserve	989	-59	-	930	-438	485	977
Resources DWP Grant Reserve	1,932	-206	308	2,034	-678	325	1,681
Resources Elections Reserve	1,036	-26	-	1,010	-	-	1,010
Resources Housing Benefit Subsidy Reserve	745	-245	-	500	-67	-	433
Resources ICT Reserves	1,130	-372	968	1,726	-1,227	458	957
Resources Land Search Fees Reserve	1,000	-556	-	444	-476	32	-
Resources Legal Expenses Reserve	200	-	-	200	-	-	200
Resources Legal Services Reserve	-	-	154	154	-	-	154
Resources Revenue and Benefits Reserve	-	-	200	200	-	100	300
Resources Single Fraud Incentive Scheme	-	-	257	257	-257	-	-
Resources System Development Reserve	840	-132	166	874	-178	29	725
Restructure Reserve	663	-475	-	188	-74	-	114
Social Care Reserve	13,335	-1,882	1,910	13,363	-7,197	170	6,336
Special Projects Reserve	37	-37	-	-	-	-	-
Strategic Waste Reserve	1,796	-1,660	-	136	-	-	136
T&P AAP/Members Reserve	3,699	-498	406	3,607	-1,124	-	2,483
T&P Grant Reserve	194	-	1,218	1,412	-264	24	1,172
T&P Operational Reserve	124	-8	631	747	-33	176	890
Technical Services Reserve	2,922	-443	1,873	4,352	-1,073	1,351	4,630
Transport Asset Management Programme Reserve	318	-158	-	160	-160	-	-
Transport Reserve	287	-36	-	251	-42	-	209
<b>Total</b>	<b>214,557</b>	<b>-98,281</b>	<b>125,367</b>	<b>241,643</b>	<b>-67,009</b>	<b>58,918</b>	<b>233,552</b>

The significant earmarked reserves at 31 March 2017, 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 2017 comprised individual school balances totalling £19.836m, net of loans outstanding of £0.063m.

**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.

**Cash Limit Reserve**

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

**Children's Services Reserve**

To provide a resource to support the provision of the Children's Services and to improve the service.

**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.

**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.

**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.

**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.

**11. Other Operating Expenditure**

2015-16 £000		2016-17 £000
10,921	Parish council precepts	11,513
16,555	Levies	15,929
34	Payments to the Government Housing Capital Receipts Pool	8
57,805	Gains/losses on the disposal of non-current assets	12,416
85,315	<b>Total</b>	39,866

**12. Financing and Investment Income and Expenditure**

2015-16 £000		2016-17 £000
15,110	Interest payable and similar charges	14,212
77,435	Premium payable on repayment of debt (Housing Stock Transfer)	-
28,920	Pensions net interest on the net defined benefit liability	29,720
-4,894	Interest receivable and similar income	-5,852
-	- Impairment of Financial Investments	48
-406	Movement in fair value of investment properties	-1,331
-5,929	Other investment income	-2,409
110,236	<b>Total</b>	34,388

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

2015-16 £000		2016-17 £000
-190,752	Council tax income *	-201,341
-50,836	Non domestic rates	-57,206
-180,607	Non-ringfenced government grants	-158,407
-36,432	Capital grants and contributions	-35,870
-207,035	Government grant in respect of Housing Stock Transfer	-
-665,662	<b>Total</b>	-452,824

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

## 14. Property, Plant and Equipment

Movement on Balance 2016/17:

	Operational				Non-Operational		Total £000
	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	
<b>Cost or valuation</b>							
At 1 April 2016	1,124,050	132,769	519,567	5,042	54,033	1,267	1,836,727
Additions	43,990	7,398	36,694	305	627	-	89,014
Revaluation increases/(decreases)	49,050	-	-15	-	-4,600	-	44,435
Derecognition - disposals	-36,934	-8,734	-	-2	-5,432	-	-51,102
Assets reclassified (to)/from Held for Sale	-	-	-	-	-2,945	-	-2,945
Other reclassifications	-2,567	1	-	1,887	1,186	-1,267	-760
Other movements in cost or valuation	-	-	-	-	-	-	-
<b>At 31 March 2017</b>	<b>1,177,589</b>	<b>131,434</b>	<b>556,246</b>	<b>7,232</b>	<b>42,869</b>	<b>-</b>	<b>1,915,369</b>
<b>Accumulated Depreciation</b>							
At 1 April 2016	-40,769	-94,802	-121,973	-88	-150	-	-257,782
Depreciation charge	-32,838	-11,173	-13,494	-	-234	-	-57,739
Depreciation written out on revaluation	20,494	-	-	-	221	-	20,715
Impairment losses/(reversals)	-19,806	-	-	-	-63	-	-19,869
Derecognition - disposals	24,100	8,256	-	-	108	-	32,464
Assets reclassified (to)/from Held for Sale	-	-	-	-	1	-	1
Other reclassifications	93	-	-	-	-93	-	-
Other movements in cost or valuation	-	-	-	-	-	-	-
<b>At 31 March 2017</b>	<b>-48,726</b>	<b>-97,719</b>	<b>-135,467</b>	<b>-88</b>	<b>-210</b>	<b>-</b>	<b>-282,210</b>
<b>Net Book Value</b>							
At 31 March 2017	1,128,863	33,715	420,779	7,144	42,659	-	1,633,159
At 31 March 2016	1,083,281	37,967	397,594	4,954	53,883	1,267	1,578,945
The Revaluations / Impairments above:							
Revaluation	49,050	-	-15	-	-4,600	-	44,435
Depreciation written out	20,494	-	-	-	221	-	20,715
Impairment losses/(reversals)	-19,806	-	-	-	-63	-	-19,869
	<b>49,738</b>	<b>-</b>	<b>-15</b>	<b>-</b>	<b>-4,442</b>	<b>-</b>	<b>45,281</b>
Are recognised as follows:							
In the Revaluation Reserve	72,189	-	-	-	-1,822	-	70,367
In the Surplus/Deficit on the Provision of Services	-22,451	-	-15	-	-2,620	-	-25,086
	<b>49,738</b>	<b>-</b>	<b>-15</b>	<b>-</b>	<b>-4,442</b>	<b>-</b>	<b>45,281</b>

## Comparative Movements in 2015/16:

	Operational						Non-Operational	Total £000
	Council Dwellings £000	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £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 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 Held for Sale	-	-	-	-	-	-8,079	-	-8,079
Other reclassifications	-71	47,195	-	-	2	-8,118	-38,655	353
Other movements in cost or 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 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 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 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 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>

## Depreciation

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

- 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

## Surplus Property

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques are categorised within the fair value hierarchy, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets;
- Level 2: inputs other than those in Level 1 that are observable, directly or indirectly; and
- Level 3: unobservable inputs.

When the fair values cannot be measured based on quoted prices in active markets for identical properties (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar properties or the discounted cash flow model). Where possible, the inputs to these valuation techniques are based on observable data but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets.

The fair value for the above properties at 31 March 2017 (£42.659m) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

## Capital Commitments

At 31 March 2017 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 £15.190m. The commitments are:

- |                                   |         |
|-----------------------------------|---------|
| • Thornley Waste Transfer Station | £0.543m |
| • Digital Durham                  | £4.493m |
| • Forrest Park                    | £2.136m |
| • NET Park Explorer Village       | £5.462m |
| • NET Park Infrastructure Phase 3 | £7.703m |

## 15. Heritage Assets

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

	Museum Collection and Artefacts £000	Artwork, Public Art and Sculptures £000	Monuments, Statues and Historic Buildings £000	Civic Regalia and Silverware £000	Total Assets £000
<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 Revaluation Reserve	-	-	-	-	-
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	-	-	-	-	-
Depreciation	-	-	-	-	-
Assets reclassified (to)/from Property Plant and 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>
<b>Cost or valuation</b>					
At 1 April 2016	8,953	819	4,514	1,158	15,444
Additions	20	-	91	-	111
Disposals	-	-	-	-	-
Revaluations	-	-	-	-	-
Impairment Losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	-	-	-	-	-
Depreciation	-	-	-	-	-
Assets reclassified (to)/from Property Plant and Equipment	-12	-	199	-	187
Other reclassifications	-	4	-	-	4
<b>At 31 March 2017</b>	<b>8,961</b>	<b>823</b>	<b>4,804</b>	<b>1,158</b>	<b>15,746</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.

## 16. Investment Properties

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

2015-16 £000	2016-17 £000
3,743 Balance at start of the year	2,266
Additions:	
- Enhancements	-
-1,575 Disposals	-
437 Net gains/losses from fair value adjustments	1,302
Transfers:	
-339 To/from Property, Plant and Equipment	125
<u>2,266</u> <b>Balance at end of the year</b>	<u>3,693</u>

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.

The fair value for the above properties at 31 March 2017 (£3.693m) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

## 17. 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:

2015-16			2016-17	
Long-term £000	Current £000		Long-term £000	Current £000
<b>Investments:</b>				
19	156,631	Loans and receivables	13	140,063
10,558	-	Available-for-sale financial assets	10,558	-
1,750	-	Unquoted equity investment at cost	3,167	-
<b>12,327</b>	<b>156,631</b>	<b>Total Investments</b>	<b>13,738</b>	<b>140,063</b>
<b>Debtors:</b>				
21,682	41,494	Loans and receivables	23,816	38,809
<b>21,682</b>	<b>41,494</b>	<b>Total Debtors</b>	<b>23,816</b>	<b>38,809</b>
<b>Borrowings:</b>				
-236,221	-13,081	Financial Liabilities at amortised cost	-256,226	-2,880
<b>-236,221</b>	<b>-13,081</b>	<b>Total Borrowings</b>	<b>-256,226</b>	<b>-2,880</b>
<b>Other Long term Liabilities:</b>				
-45,541	-3,762	PFI and finance lease liabilities	-44,254	-3,623
<b>-45,541</b>	<b>-3,762</b>	<b>Total other long term liabilities:</b>	<b>-44,254</b>	<b>-3,623</b>
<b>Creditors:</b>				
-	-82,982	Financial liabilities at amortised cost	-	-71,329
-	-	Financial liabilities carried at contract amount	-	-
<b>-</b>	<b>-82,982</b>	<b>Total Creditors</b>	<b>-</b>	<b>-71,329</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 21.

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 2017 was £0.061m (31 March 2016 £0.061m). 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 21 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 2017 was £0.001m (31 March 2016 £0.023m).

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 2017, the value of soft loans received by the Council was £0.024m (31 March 2016, 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 2016/17.

## 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:

2015-16					2016-17					
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
92,545	-	-	-	92,545	Interest expense	14,212	-	-	-	14,212
-	-	-	-	-	Impairment losses	-	-	-	-	-
92,545	-	-	-	92,545	<b>Total expense in Surplus or Deficit on the Provision of Services</b>	14,212	-	-	-	14,212
-	-4,894	-	-	-4,894	Interest income	-	-5,852	-	-	-5,852
-	-	-	-	-	Interest income accrued on impaired financial assets	-	-	-	-	-
-	-4,894	-	-	-4,894	<b>Total income in Surplus or Deficit on the Provision of Services</b>	-	-5,852	-	-	-5,852
92,545	-4,894	-	-	87,651	<b>Net gain/(loss) for the year</b>	14,212	-5,852	-	-	8,360

## 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 (level 2), using the following assumptions:

- For loans from the PWLB and other loans payable, new borrowing 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:

<b>31 March 2016</b>			<b>31 March 2017</b>		
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000	
-193,983	-224,988	PWLB debt	-203,981	-241,049	
-51,639	-63,398	Non-PWLB debt	-51,651	-76,614	
-10,002	-10,002	Short term borrowing	-2	-2	
-82,982	-82,982	Short term creditors	-71,329	-71,329	
-2,833	-2,833	Short term finance lease liability	-2,666	-2,666	
-	-	Long term creditors	-	-	
-5,411	-5,411	Long term finance lease liability	-5,082	-5,082	
<b>-346,850</b>	<b>-389,614</b>	<b>Total Liabilities</b>	<b>-334,711</b>	<b>-396,742</b>	

The financial liabilities are held with PWLB and market lenders. All of these investments and borrowings were not quoted on an active market and a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Capita Asset Services. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the public sector. Our accounting policy uses new borrowing rates to discount the future cash flows.

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 2017) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £241.049m 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 £203.981m would be valued at £241.049m. 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 £263.820m.

<b>31 March 2016</b>			<b>31 March 2017</b>		
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000	
156,631	156,631	Short term investments	140,063	140,063	
19	19	Long term investments	13	13	
41,494	41,494	Short term debtors	38,809	38,809	
21,682	21,682	Long term debtors	23,816	23,816	
<b>219,826</b>	<b>219,826</b>	<b>Total Assets</b>	<b>202,701</b>	<b>202,701</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 financial 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.

<b>Financial assets measured at fair value</b>				
	Input level in fair value hierarchy	Valuation technique used to measure fair value	As at 31 March 2017 £000	As at 31 March 2016 £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 Airport Ltd.	Level 3	Valued at cost	-	-
Equity shareholding in Chapter Homes.	Level 3	Valued at cost	1,715	450
Equity shareholding in Polyphotonix.	Level 3	Valued at cost	300	300
Equity shareholding in Forrest Park (Newton Aycliffe).	Level 3	Valued at cost	1,000	1,000
Equity shareholding in Atom Bank.	Level 3	Valued at cost	152	-
<b>Total</b>			<b>13,725</b>	<b>12,308</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 £13.725m 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.

## 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.

## 18. 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 24 February 2016 and updated on 7 December 2016 and is available on the Council's website.

The key issues within the strategy were:

- The Authorised Limit for 2016/17 was set at £552m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was set at £499m. 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 £174.630m 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 2017 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 £18.306m of the £55.475m 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 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
13,527	Less than three months	12,205
873	Between three and six months	2,299
1,457	Between six months and one year	1,239
2,790	More than one year	2,563
<u>18,647</u>	<b>Total</b>	<u>18,306</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 2017 was £2.858m.

### **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 2017 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 2017 is that 84.25% of the outstanding balance has been repaid. 86%-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 £184.130m, 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 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
10,002	Less than one year	7
2	Between one and two years	10,002
32,008	Between two and five years	22,028
62,621	Between five and ten years	62,617
89,895	Between ten and fifteen years	89,887
4,004	Between fifteen and twenty years	4,002
0	Between twenty and twenty five years	0
47,090	More than twenty five years	67,090
<b>245,622</b>	<b>Total</b>	<b>255,633</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 2017, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £34.480m 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 £13.725m (£12.308m in 2015/16) 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 2016				31 March 2017		
Unquoted Shares £000	Other £000	Total £000		Unquoted Shares £000	Other £000	Total £000
10,558	-	10,558	Opening balance	12,308	-	12,308
-	-	-	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	-	-	-
1,750	-	1,750	Additions	1,417	-	1,417
-	-	-	Disposals	-	-	-
<b>12,308</b>	<b>-</b>	<b>12,308</b>	<b>Closing Balance</b>	<b>13,725</b>	<b>-</b>	<b>13,725</b>

## 19. Inventories

	Balance outstanding at start of year £000	Purchases £000	Recognised as an expense in the year £000	Adjustment for internal inventories £000	Reversals of write-offs in previous years £000	Balance outstanding at year-end £000
<b>Year to 31 March 2017</b>						
Consumable Stores	3,878	13,763	-14,856	-	-	2,785
Maintenance Materials	420	278	-248	-	-	450
Client Services Work in Progress	318	342	-562	-	-	98
Rechargeable Works	450	576	-451	-	-	575
<b>Total</b>	<b>5,066</b>	<b>14,959</b>	<b>-16,117</b>	<b>-</b>	<b>-</b>	<b>3,908</b>
<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>

**20. Short Term Debtors**

<b>2015-16</b>		<b>2016-17</b>
<b>£000</b>		<b>£000</b>
10,923	Central government bodies	11,158
11,379	Other local authorities	5,455
2,037	NHS bodies	2,941
-	- Public corporations and trading funds	-
55,755	Other entities and individuals	55,475
<u>-25,802</u>	Less: Impairment Allowance	<u>-24,913</u>
54,292		50,116
3,110	Payments in advance	3,616
<u>57,402</u>	<b>Total</b>	<u>53,732</u>

**21. Cash and Cash Equivalents**

<b>2015-16</b>		<b>2016-17</b>
<b>£000</b>		<b>£000</b>
613	Cash at bank	515
-436	Overdraft	-1,953
37,901	Cash held on demand (call accounts)	24,340
912	Deposits held for liquidity purposes	10,438
<u>38,990</u>	<b>Cash and Cash Equivalents balance</b>	<u>33,340</u>

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

<b>2015-16</b>		<b>2016-17</b>
<b>£000</b>		<b>£000</b>
3,231	<b>Balance outstanding at start of year</b>	6,660
	Assets newly classified as Held for Sale:	
8,005	Property, Plant and Equipment	8,203
-368	Revaluations	-475
	Assets declassified as Held for Sale:	
-	Property, Plant and Equipment	-5,100
-4,208	Assets sold	-684
<u>6,660</u>	<b>Balance outstanding at year-end</b>	<u>8,604</u>

The fair value for the above properties at 31 March 2017 (£8.604m) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Assets Held For Sale are also valued at market value using a combination of comparable method, investment method and/or development method to arrive at an opinion of value. If the asset is specialised and is a trading property then the valuer could also use the accounts method.

## 23. Short Term Creditors

2015-16 £000		2016-17 £000
-25,206	Central government bodies	-24,880
-1,516	Other local authorities	-1,341
-2,211	NHS bodies	-1,084
	- Public corporations and trading funds	-
-70,711	Other entities and individuals	-66,035
-99,644		-93,340
-7,805	Receipts in Advance	-8,978
<u>-107,449</u>	<b>Total creditors</b>	<u>-102,318</u>

## 24. Provisions

The provisions at 31 March 2017 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 £000	Equal Pay £000	NDR Appeals £000	Other Provisions £000	Total £000
<b>Balance at 1 April 2016</b>	8,475	74	8,941	64	17,554
Additional provisions made in 2016-17	4,809	-	3,618	-	8,427
Amounts used in 2016-17	-1,274	-8	-3,640	-	-4,922
Unused amounts reversed in 2016-17	-3,551	-	-	-64	-3,615
<b>Balance at 31 March 2017</b>	<b>8,459</b>	<b>66</b>	<b>8,919</b>	<b>-</b>	<b>17,444</b>
<b>As shown in Balance Sheet</b>					
Long Term Provisions	5,696	-	8,919	-	14,615
Short Term Provisions	2,763	66	-	-	2,829
<b>Balance at 31 March 2017</b>	<b>8,459</b>	<b>66</b>	<b>8,919</b>	<b>-</b>	<b>17,444</b>

## 25. Usable Reserves

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

31 March 2016 £000	31 March 2017 £000
362 Usable Capital Receipts Reserve	362
524 Capital Grants and Contributions Unapplied	-
29,101 General Fund Balance	23,004
241,643 Earmarked Reserves	233,544
<b>271,630 Total</b>	<b>256,910</b>

### Usable Capital Receipts Reserve

Proceeds of non-current 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.

### 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 10 and are resources set aside for future spending plans.

## 26. Unusable Reserves

<b>31 March 2016</b>	<b>31 March 2017</b>
<b>£000</b>	<b>£000</b>
504,364 Revaluation Reserve	546,261
694,829 Capital Adjustment Account	694,510
-1,960 Financial Instruments Adjustment Account	-1,838
4,125 Deferred Capital Receipt	3,238
-13,233 Short Term Accumulating Absences Account	-10,078
-904,286 Pensions Reserve	-1,120,277
10,280 Available for Sale Financial Instruments Reserve	10,432
2,380 Collection Fund	6,112
<b>296,499 Total</b>	<b>128,360</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.

<b>2015-16</b>	<b>2016-17</b>
<b>£000</b>	<b>£000</b>
539,632 <b>Balance at 1 April</b>	504,364
48,371 Upward revaluation of assets	116,548
Downward revaluation of assets and impairment losses not charged to the	
-44,618 Surplus/Deficit on the Provision of Services	-46,215
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or	
3,753 Deficit on the Provision of Services	70,333
-16,438 Difference between fair value depreciation and historical cost depreciation	-17,367
-22,583 Accumulated gains on assets sold or scrapped	-11,069
-39,021 Amount written off to the Capital Adjustment Account	-28,436
<b>504,364 Balance at 31 March</b>	<b>546,261</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 9 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

<b>2015-16</b>	<b>2016-17</b>
<b>£000</b>	<b>£000</b>
597,603 <b>Balance at 1 April</b>	694,829
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
-57,732 - Charges for depreciation and impairment of non-current assets	-64,529
-14,648 - Revaluation losses on Property, Plant and Equipment	-18,742
-846 - Amortisation of intangible assets	-512
-29,868 - Revenue expenditure funded from capital under statute	-15,900
-185,802 - Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-19,187
-288,896	-118,870
39,022 Adjusting amounts written out of the Revaluation Reserve	28,436
-249,874 Net written out amount of the cost of non-current assets consumed in the year	-90,434
Capital financing applied in the year:	
10,183 - Use of Capital Receipts Reserve to finance new capital expenditure	7,648
114,400 - Use of Capital Receipts Reserve to repay debt - Housing Stock Transfer	-
52,087 - Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	46,626
129,600 Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement to repay debt - Housing Stock Transfer	-
85 Application of grants and contributions to capital financing from the Capital Grants Unapplied account	524
16,569 - Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	13,589
23,770 - Capital expenditure charged against the General Fund and HRA balances	20,397
346,694	88,784
406 Movements in the fair value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	1,331
694,829 <b>Balance at 31 March</b>	694,510

### 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.

<b>2015-16</b>	<b>2016-17</b>
<b>£000</b>	<b>£000</b>
888 <b>Balance at 1 April</b>	4,125
3,970 Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	524
-733 Transfer to the Capital Receipts Reserve upon receipt of cash	-1,411
4,125 <b>Balance at 31 March</b>	3,238

## 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.

2015-16 £000		2016-17 £000
-15,035	<b>Balance at 1 April</b>	-13,233
15,035	Settlement or cancellation of accrual made at the end of the preceding year	13,233
-13,233	Amounts accrued at the end of the current year	-10,078
1,802	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	3,155
<u>-13,233</u>	<b>Balance at 31 March</b>	<u>-10,078</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 46.

2015-16 £000		2016-17 £000
-936,301	<b>Balance at 1 April</b>	-904,285
54,480	Remeasurements of the net defined benefit liability	-197,240
-389	Difference between Actuary's estimate and Actual Employers' Pension Contributions	145
-83,850	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	-81,200
61,775	Employer's pensions contributions and direct payments to pensioners payable in the year	62,303
<u>-904,285</u>	<b>Balance at 31 March</b>	<u>-1,120,277</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.

2015-16 £000	2016-17 £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	152
- Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	-
10,280	10,432
- 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>	10,432

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

2015-16 £000	2016-17 £000
-54,908 Depreciation	-57,869
-17,472 Impairment and downward revaluation	-25,155
-846 Amortisations	-512
0 Impairment of Icelandic assets	-48
-1,802 Transfer to/from Accumulated Absences account	-3,155
-2,469 Increase/decrease in the provision for bad debts	-78
-5,018 Increase/decrease in creditors	-1,976
-4,478 Increase/decrease in debtors	-3,592
1,499 Increase/decrease in inventory	-1,158
-22,075 Pension liability	-18,897
-71,520 Carrying amount of non-current assets sold	-19,187
57,512 Other non-cash items	31,240
-121,578	-100,388

## 28. Cash Flow Statement – Adjustments for items included in net surplus or deficit on the provision of services that are investing and financing activities

2015-16 £000		2016-17 £000
124,027	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-7,160
124,027	<b>Net cash flows from investing activities</b>	-7,160

## 29. Cash Flow Statement – Cash Flows from Interest and Dividends Received and Paid Included in Operating Activities

The cash flows for operating activities include the following items:

2015-16 £000 (restated)		2016-17 £000
14,176	Interest paid	14,006
-4,299	Interest received	-3,118
-375	Dividends received	-3,122
9,502	<b>Net cash flows from operating activities</b>	7,766

## 30. Cash Flow Statement – Investing Activities

2015-16 £000		2016-17 £000
90,925	Purchase of property, plant and equipment, investment property and intangible assets	88,318
549,213	Purchase of short-term (not considered to be cash equivalents) and long-term investments	420,584
4,245	Other payments for investing activities - external trading	3,065
-124,027	Proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets	-7,160
-494,275	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	-405,424
-31,817	Other receipts from investing activities (inc. external trading)	-40,098
-5,736	<b>Net cash flows from investing activities</b>	59,285

## 31. Cash Flow Statement – Financing Activities

2015-16 £000		2016-17 £000
-	Cash receipts of short-term and long-term borrowing	-20,000
-8,969	Other receipts from financing activities	-10,055
8,038	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	3,400
82,152	Repayments of short-term and long-term borrowing	10,000
-	Other payments for financing activities	-
81,221	<b>Net cash flows from financing activities</b>	-16,655

## 32. 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 12). The summary revenue account for these services is shown below.

	2014-15	2015-16	2016-17
	£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: £17.783m

Turnover	-46,581	-40,958	-46,356
Expenditure	38,199	34,501	43,412
Surplus(-)/Deficit	<u>-8,382</u>	<u>-6,457</u>	<u>-2,944</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 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: £2.081m

Turnover	-16,532	-14,806	-14,489
Expenditure	17,153	15,324	15,431
Surplus(-)/Deficit	<u>621</u>	<u>518</u>	<u>942</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 : £1.086m

Turnover	-2,261	-2,161	-2,233
Expenditure	1,882	3,379	2,480
Surplus(-)/Deficit	<u>-379</u>	<u>1,218</u>	<u>247</u>

	2014-15	2015-16	2016-17
	£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: £3.346m

Turnover	-24,527	-23,387	-23,115
Expenditure	22,853	22,225	22,605
Surplus(-)/Deficit	<u>-1,674</u>	<u>-1,162</u>	<u>-510</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 deficit over the last three financial years: £0.022m

Turnover	-9,707	-60	0
Expenditure	9,570	219	0
Surplus(-)/Deficit	<u>-137</u>	<u>159</u>	<u>0</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 surplus over the last three financial years £0.327m

Turnover	-2,820	-2,126	-2,258
Expenditure	2,589	2,013	2,275
Surplus(-)/Deficit	<u>-231</u>	<u>-113</u>	<u>17</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 £0.257m

Turnover	-547	-623	-879
Expenditure	681	704	921
Surplus(-)/Deficit	<u>134</u>	<u>81</u>	<u>42</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 12).

### 33. Agency Services

The County Council provides a range of services to other bodies such as Durham Police and Crime Commissioner, 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 2016/17 £7.736m (£9.193m (restated) in 2015/16) 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 decrease in Agency Services from 2015/16 to 2016/17 is mainly due to the decrease in services provided to Registered Social Landlords.

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

### 34. Members' Allowances

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

2015-16 £000		2016-17 £000
1,667	Basic Allowance	1,667
284	Special Responsibility Allowance	285
7	Broadband Allowance	7
79	Expenses	72
2,037	<b>Total</b>	2,031

### 35. Officers' Remuneration

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

Name	Period	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Office £	Pensions Contribution £	Total £
Chief Executive - Terry Collins (from 01/02/2016)	2016-17	186,850		-		21,488	208,338
	2015-16	30,833		-		4,255	35,088
Chief Executive - George Garlick (to 31/01/2016)	2015-16	168,590		142		-	168,732
Corporate Director - Resources (01/04/2016 to 31/05/2016 & from 18/10/2016)	2016-17	87,805		3		8,865	96,673
	2015-16	140,000		579		-	140,579
Interim Corporate Director - Resources (01/06/2016 to 17/10/2016)	2016-17	53,595		-		7,396	60,991
	2015-16	-		-		-	-
Corporate Director - Children and Adults Services (to 31/08/2016)	2016-17	58,917		-		8,131	67,047
	2015-16	140,000		3		19,320	159,323
Corporate Director - Children and Young Peoples Services - (from 29/03/2017)	2016-17	-		-		-	-
	2015-16	-		-		-	-
Interim Corporate Director - Adult, Wellbeing and Health Services (from 25/07/2016 to	2016-17	31,169		-		4,301	35,470
	2015-16	-		-		-	-
Corporate Director - Adult, Wellbeing and Health Services (from 14/10/2016)	2016-17	65,759		-		9,075	74,833
	2015-16	-		-		-	-
Corporate Director - Neighbourhood Services (to 31/01/2016)	2016-17	-		-		-	-
	2015-16	116,667		-		16,100	132,767
Interim Corporate Director - Neighbourhood Services (from 01/02/2016 to 30/09/2016)	2016-17	70,700		-		9,757	80,457
	2015-16	23,333		-		3,220	26,553
Corporate Director - Regeneration and Economic Development (to 30/09/2016)	2016-17	70,700		-		9,757	80,457
	2015-16	140,000		115		19,320	159,435
Corporate Director - Regeneration and Local Services (from 01/10/2016)	2016-17	70,700		-		9,757	80,457
	2015-16	-		-		-	-
Assistant Chief Executive (to 30/9/2016)	2016-17	60,600		-		8,363	68,963
	2015-16	120,000		-		16,560	136,560
Director - Transformation and Partnerships (from 01/10/2016)	2016-17	60,600		-		8,363	68,963
	2015-16	-		-		-	-
Head of Legal and Democratic Services (Monitoring Officer)	2016-17	111,100		-		15,612	126,712
	2015-16	110,000		-		14,888	124,888

The Council's employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts (this table excludes details of the senior employees, shown in the previous table):

The 'Other Staff' column in the table below includes employees which provide educational support services within schools. Of the 191 'Other Staff' in 2016/17 there are 4 employees paid on Leadership Teacher grades and 40 employees paid on Soulbury grades. The costs associated with providing the educational support services are recovered through Service Level Agreements from schools within Durham County and also a number of schools outside of the Durham area.

Remuneration band	2015-16			2016-17		
	School Staff	Other Staff	Total	School Staff	Other Staff	Total
£50,000 - £54,999	102	72	174	112	81	193
£55,000 - £59,999	117	27	144	96	34	130
£60,000 - £64,999	39	16	55	48	26	74
£65,000 - £69,999	24	11	35	34	16	50
£70,000 - £74,999	10	7	17	9	3	12
£75,000 - £79,999	2	10	12	6	9	15
£80,000 - £84,999	4	6	10	1	4	5
£85,000 - £89,999	4	6	10	2	2	4
£90,000 - £94,999	2	2	4	4	-	4
£95,000 - £99,999	5	7	12	1	5	6
£100,000 - £104,999	1	1	2	1	2	3
£105,000 - £109,999	-	3	3	2	1	3
£110,000 - £114,999	-	6	6	1	5	6
£115,000 - £119,999	-	1	1	-	2	2
£120,000 - £124,999	-	1	1	-	-	-
£125,000 - £129,999	-	-	-	-	1	1
£130,000 - £134,999	-	-	-	-	-	-
£135,000 - £139,999	-	1	1	-	-	-
	<b>310</b>	<b>177</b>	<b>487</b>	<b>317</b>	<b>191</b>	<b>508</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.

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) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) + (c)]		(e) Total cost of exit packages in each band	
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16 £000	2016-17 £000
£0 - £20,000	30	48	80	139	110	187	978	902
£20,001 - £40,000	3	5	40	36	43	41	1,275	1,194
£40,001 - £60,000	1	1	20	17	21	18	1,000	875
£60,001 - £80,000	1	-	11	18	12	18	874	1,224
£80,001 - £100,000	-	-	10	18	10	18	910	1,629
£100,001 - £150,000	1	-	15	12	16	12	1,928	1,395
£150,001 - £250,000	-	-	4	1	4	1	799	156
<b>Total</b>	<b>36</b>	<b>54</b>	<b>180</b>	<b>241</b>	<b>216</b>	<b>295</b>	<b>7,764</b>	<b>7,375</b>

### 36. 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 2015/16 and 2016/17 is Mazars LLP.

2015-16 £000		2016-17 £000
251	Fees payable with regard to external audit services carried out by the appointed auditor for the year	251
20	Fees payable in the year for the certification of grant claims and returns by the appointed auditor	20
7	Fees payable in the year for other services carried out by the appointed auditor	5
278	<b>Total</b>	276

### 37. 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 and Early Years (England) Regulations 2014. 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 2016/17 are as follows:

	<b>Central Expenditure £000</b>	<b>ISB £000</b>	<b>Total £000</b>
A Final DSG for 2016/17 before Academy Recoupment			355,876
B Academy figure recouped for 2016/17			<u>77,592</u>
C Total DSG after Academy Recoupment for 2016/17			278,284
Plus			
D Brought forward from 2015/16			12,185
Less			
E Carry forward to 2017/18 agreed in advance			<u>10,033</u>
F Agreed initial budgeted distribution in 2016/17	34,437	245,999	280,436
G In year adjustments	-14,729	14,430	-299
H Final budgeted distribution for 2016/17	<u>19,708</u>	<u>260,429</u>	<u>280,137</u>
Less			
I Actual central expenditure	18,873		18,873
Less			
J Actual ISB deployed to schools		260,138	260,138
Plus			
K Local authority contribution for 2016/17	-	-	-
L Carry forward to 2017/18	<u>835</u>	<u>291</u>	<u>11,159</u> *

\* Total carry-forward (£11.159m) is the carry forward on central expenditure (L) (£0.835m) plus carry forward on ISB (L) (£0.291m) plus carry forward 2017/18 already agreed (E) (£10.033m).

A: Final DSG figure before any amount has been recouped from the Council excluding the January 2017 early years block adjustment.

B: Figure recouped from the Council in 2016/17 by the DfE for the conversion of maintained schools into Academies.

C: Total figure after EFA Academy recoupment for 2016/17.

D: Figure brought forward from 2015/16 as agreed with the Department.

- E: Any amount which the Council decided after consultation with the Schools Forum to carry forward to 2017/18 rather than distribute in 2016/17 – this may be the difference between estimated and final DSG for 2016/17, or a figure (positive or negative) brought forward from 2015/16 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 2016/17.
- 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 2016/17 which will have the effect of substituting for DSG in funding the Schools Budget.
- L: Carry forward to 2017/18:
- 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 2017/18 already agreed (E).

### 38. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016-17:

2015-16 £000		2016-17 £000
	<b>Credited to Taxation and Non Specific Grant Income:</b>	
	Non Ring-fenced Government Grants:	
-100,240	- Revenue Support Grant	-77,144
-60,491	- Top Up Grant	-60,995
-5,173	- Section 31 Grants	-4,400
-6,006	- Education Funding Agency Grant	-5,419
-8,323	- New Homes Bonus Scheme Grant	-10,182
-374	- New Homes Bonus Scheme Topslice Reimbursement	-267
-36,432	Capital Grants and Contributions	-35,870
-207,035	Government Grant in respect of Housing Stock Transfer	-
-424,074		-194,277

## Grant and Contribution Income Credited to Services

2015-16 £000 (restated)		2016-17 £000
	<b>Credited to Services:</b>	
-550	Arts Council Eng - NE	-424
-170	Arts Projects	-31
-43	Asylum Seekers Grant	-235
-23,763	Clinical Commissioning Groups-Better Care Fund	-23,300
-379	Darlington Borough Council	-346
-2,605	DCSF Grant	-545
-282,206	Dedicated Schools Grant (DSG)	-277,985
-309	DEFRA Grant	-309
-897	Department of Health Grant	-744
-5,508	Department for Transport Grant	-72
-982	Discretionary Housing Payment Grant	-1,187
-514	Durham Police and Crime Commissioner	-496
-321	Education Authorities-other	-395
-9,681	Education Funding Agency	-9,647
-534	Educational Visits	-625
-32	ERDF Grant	-1,576
-1,095	Heritage Lottery Fund Grant	-1,213
-2,900	Housing Benefit - Admin Grant	-2,482
-175,072	Housing Benefit Grant - Rent Allowance	-177,960
-575	Housing Benefit Grant - Rent Rebate	-408
-874	LCTSS - Administration Grant	-984
-137	Natural England	-62
-6,573	NHS - Care Costs	-7,266
-417	NHS - Integrated Services	-
-2,155	NHS - Joint Arrangements	-1,837
-601	NNDR Cost of Collection Allowance	-600
-16,076	North East Combined Authority	-15,474
-756	Other Local Authorities	-783
-5,519	PFI Grants	-5,519
-47,538	Public Health Grant	-51,246
-20,961	Pupil Premium Grant	-21,188
-2,672	Skills Funding Agency	-4,326
-1,400	Transformation Challenge Award Grant	-
-691	Youth Offending Teams Grant	-610
-27,792	Other Grants and Contributions	-22,172
-642,298		-632,047

## Capital Grants and Contributions Receipts 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>2015-16</u>			<u>2016-17</u>	
Long Term Liabilities £000	Short Term Liabilities £000		Long Term Liabilities £000	Short Term Liabilities £000
<b>Capital Grants and Contributions Receipts in Advance</b>				
-	-91	Broadband Delivery UK	-	-452
-	-	County Durham Housing Group Limited	-	-107
-	-	Darlington Borough Council	-	-104
-	-408	Department for Transport - Highways	-	-
-	-146	Education Funding Agency	-	-1,592
-	-90	Environment Agency	-	-
-	-55	Heritage Lottery Fund Grant - Wharton Park	-	-
-	-25	Living Streets	-	-
-	-	Middlesbrough Council	-	-63
-	-498	North East Combined Authority	-	-26
-	-200	Public Health England	-	-200
-	-	Redcar and Cleveland Borough Council	-	-170
-	-	Stockton Borough Council	-	-156
-	-126	Sunderland City Council	-	-134
-	-307	Sustrans	-	-
-	-2,388	Other	-	-113
-	-4,334	<b>Total Capital Grants and Contributions Receipts in Advance</b>	-	-3,117

## 39. 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 2016/17 is shown in Note 34.

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 £0.381m in 2016/17 (£0.318m in 2015/16). 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 £0.924m in 2016/17 (£0.725m in 2015/16)
- VISIT County Durham, the tourism management board for County Durham for which there were transactions to the value of £0.015m in 2016/17 (£0.027m in 2015/16) with the Council.
- Groundwork North East, carrying out environmental works for which there were transactions of £0.451m in 2016/17 (£0.339m in 2015/16).
- Durham Community Action, formerly Durham Rural Community Council, providing support to communities throughout County Durham £0.318m in 2016/17 (£0.353m in 2015/16)
- Consett YMCA for work done with various schools including the Pupil Referral Unit £0.214m in 2016/17 (£0.113m in 2015/16)
- The Bowes Museum for services to schools £0.273m in 2016/17 (£0.311m in 2015/16)
- Leisureworks £1.285m in 2016/17 (£1.927m in 2015/16)
- County Durham Sport £0.036m in 2016/17 (Nil in 2015/16)
- Durham Christian Partnership £0.022m in 2016/17 (£0.007m in 2015/16)
- Cornforth Partnership £0.126m in 2016/17 (£0.149m in 2015/16)
- Crook Community Leisure £0.168m in 2016/17 (£0.006m in 2015/16)
- Glebe Centre £0.019m in 2016/17 (£0.029m in 2015/16)

During 2016/17, works and services to the value of £0.056m (£0.041m in 2015/16) 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 Director of VISIT County Durham Director of Durham Villages Regeneration Limited

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.

### 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. In the initial period between 10 August 2015 to 31 March 2016, Chapter Homes Durham Limited made an operating loss of £0.035m and a loss of £0.035m after taxation. The Company accounts for 2016/17 are not yet available.

### 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 for the period ending 31 March 2017 are currently being prepared.

### Durham Villages Regeneration Limited

This is a joint venture arrangement of which the Council has 50% of the voting rights of the Company and 49% of the share capital. The Company operates as a public-private partnership formed to regenerate communities. The Company's principal activities during the year were private house building and property development. At 31 March 2016 Durham Villages Regeneration Limited made an operating profit before taxation of £0.603m for 2015/16 (2014/15 £0.474m) and £0.482m for 2015/16 after taxation (2014/15 £0.375m). The Company accounts for 2016/17 are not yet available.

### **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 2017 are £3.200m (31 March 2016: £3.161m). 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 2017 are £1.523m (31 March 2016: £1.243m). 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 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 2016/17 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. A dividend of £2.664m was received for the year ended 31 December 2016 (nil for the year ended 31 December 2015).

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 loss before tax of £2.266m and a loss after tax of £0.499m for the year ended 31 December 2016. In the previous year, the Group made a profit before tax of £2.300m and a profit after tax of £4.556m.

### **Durham Tees Valley Airport Limited**

The Council holds 1.45% of the total shareholding in Durham Tees Valley Airport. For the year ended 31 March 2016, Durham Tees Valley Airport Limited made a loss before taxation of £3.302m (loss of £2.104m for year ended 31 March 2015) and a loss of £2.590m after taxation (loss of £1.262m for year ended 31 March 2015). The Company accounts for 2016/17 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 28 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 £20,000 towards the running costs of the Museum in 2016/17 (£20,000 in 2015/16).

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

Durham County Council administers the Durham County Council Pension Fund on behalf of 115 bodies, including borough, parish and town councils, colleges, academy schools, statutory bodies and admitted bodies. During 2016/17, the Pension Fund had an average balance of £21.368m (£51.288m in 2015/16) of surplus cash deposited with the Council.

In 2016/17 the Council paid the fund a total of £0.069m (£0.223m in 2015/16) in interest on these deposits.

#### 40. 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.

2015-16 £000 (restated)		2016-17 £000
636,459	<b>Opening Capital Financing Requirement</b>	410,407
	Capital investment:	
83,179	Property, Plant and Equipment	83,176
5,298	Property, Plant and Equipment - Finance Leases	2,968
-	- Property, Plant and Equipment - PFI	2,427
-	- Heritage Assets	111
274	Intangible Assets	1,322
2,100	Acquisition of share and loan capital	4,315
29,868	Revenue Expenditure Funded from Capital under Statute	15,900
	Sources of finance:	
-10,260	Capital receipts	-7,739
-114,400	Capital receipts to repay debt (stock transfer)	-
-129,600	Overhanging debt grant (stock transfer)	-
-52,172	Government grants and other contributions	-47,150
	Sums set aside from revenue:	
-23,770	- Direct revenue financing	-20,397
-16,569	- Minimum Revenue Provision	-13,589
<u>410,407</u>	<b>Closing Capital Financing Requirement</b>	<u>431,751</u>
	<b>Explanation of movements in year</b>	
-9,812	Increase/(decrease) in underlying need to borrow (supported by government financial assistance)	-5,886
-221,538	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	24,262
5,298	Assets acquired under finance leases	2,968
<u>-226,052</u>	<b>Increase/(decrease) in Capital Financing Requirement</b>	<u>21,344</u>

2015/16 comparative figures have been restated to show the acquisition of loan capital separately, rather than under the Revenue Expenditure Funded from Capital under Statute line.

## 41. 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 2016 £000		31 March 2017 £000
	- Other Land and Buildings	-
10,926	Vehicles, Plant, Furniture and Equipment	10,785
<u>10,926</u>		<u>10,785</u>

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 2016 £000		31 March 2017 £000
	Finance lease liabilities (net present value of minimum lease payments):	
2,833	Current	2,666
5,411	Non-Current	5,082
618	Finance costs payable in future years	537
<u>8,862</u>	<b>Minimum lease payments</b>	<u>8,285</u>

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

31 March 2016			31 March 2017	
Minimum Lease Payments £000	Finance Lease Liabilities £000		Minimum Lease Payments £000	Finance Lease Liabilities £000
3,091	2,833	Not later than one year	2,914	2,666
5,586	5,232	Later than one year and not later than five years	5,348	5,059
185	179	Later than five years	23	23
<u>8,862</u>	<u>8,244</u>		<u>8,285</u>	<u>7,748</u>

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 2016</b> <b>£000</b>	<b>31 March 2017</b> <b>£000</b>
998 Not later than one year	996
2,693 Later than one year and not later than five years	2,400
3,723 Later than five years	3,259
<u>7,414</u>	<u>6,655</u>

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 2016</b> <b>£000</b>	<b>31 March 2017</b> <b>£000</b>
1,806 Minimum lease payments	1,806
-2,406 Sublease payments receivable	-2,478
<u>-600</u>	<u>-672</u>

### **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 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
2,813	Not later than one year	2,792
4,738	Later than one year and not later than five years	4,137
7,414	Later than five years	5,834
<u>14,965</u>		<u>12,763</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 2016/17 no rents were received by the authority in respect of contingent rents (2015/16 Nil).

## **42. 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.

The assets associated with PFI schools that have transferred to academy status (Shotton Hall) are not reflected in the Council's balance sheet as the assets were written out in 2010/11.

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 2016 £000 (restated)		31 March 2017 £000
18,516	Net book value at 1 April	18,492
380	Additions	1,474
-404	Depreciation	-431
-	Revaluations	91
18,492	Net book value at 31 March	19,626

2015/16 comparative figures have been restated to show additions which were added to the Asset Register after the 2015/16 Statement of Accounts had been produced.

In addition to the net book value of £19.626m 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 £1.783m and the total net value of land and buildings for these schools carried forward is £21.410m.

### 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 2016/17 are summarised below:

31 March 2016 £000		31 March 2017 £000
41,860	<b>Balance outstanding at start of year</b>	41,060
-800	Payments during the year	-929
41,060	<b>Balance outstanding at year-end</b>	40,131

### Estimates of Future Payments Due

	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2017-18	2,354	957	4,071	7,382
Payable within two to five years	10,634	4,276	15,283	30,193
Payable within six to ten years	14,747	8,496	16,116	39,359
Payable within eleven to fifteen years	18,058	12,270	11,052	41,380
Payable within sixteen to twenty years	14,822	14,132	3,661	32,615
<b>Total</b>	60,615	40,131	50,183	150,929

Contract payments are partially linked to inflation as measured by the RPIX index (all items excluding Mortgage Interest Payments). These estimates assume that after 2016/17 RPIX increases at 2.5% a year for the remainder of the contract.

Other reasons why costs might vary 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 is currently considering options in relation to re-financing the PFI contract.

### 43. Impairment and Revaluation Losses

The value of the Council's assets has been reduced by £76.973m in 2016/17 (£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.

### 44. Termination Benefits

The Council terminated the contracts of a number of employees in 2016/17. The value of the redundancy payments charged to services in 2016/17 was £3.452m and in 2015/16 was £4.349m. The table below analyses the payments made in the relevant financial years. The majority of the payments made in 2016/17 were due to the rationalisation of services within the Council.

2015-16 £000 (restated)		2016-17 £000
1,398	Adult and Health Services	1,226
1,007	Children and Young People's Services	1,117
931	Regeneration and Local Services	687
964	Resources	279
38	Transformation and Partnerships	83
11	Financing and Investment Income and Expenditure (Trading)	60
4,349	<b>Total</b>	3,452

The Code now requires the service analysis in the CIES to be based on the organisational structure under which the Council operates and manages its services. Previously the presentation was based on the service expenditure analysis set out in CIPFA's Service Reporting Code of Practice for Local Authorities (SeRCOP). The 2015/16 comparative figures have been restated to reflect this change.

In addition to the above redundancy payments, the pension enhancement value in 2016/17 was £3.471m and in 2015/16 was £3.953m.

## **45. 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 2016/17, the Council paid £19.181m to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay (2015/16: £18.408m, 14.1% to 31 August 2015 and 16.48% from 1 September 2015). 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 46.

### **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 2016/17, the Council paid £0.107m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.3% of pensionable pay (£0.148m and 14.3% in 2015/16). There were no contributions remaining payable at the year end.

## **46. 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 career average revalued earnings 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 (superceded by the Investment Strategy Statement with effect from 1 April 2017) 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:

2015-16			2016-17	
Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000		Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000
		Cost of services:		
		Service cost comprising:		
48,706	-	- Current service cost	47,140	-
3,810	-	- Past service cost (including curtailments)	1,310	-
		Financing and Investment Income and Expenditure:		
2,414	-	- Current service cost	3,030	-
26,650	2,270	- Net interest on net defined benefit liability	27,450	2,270
81,580	2,270	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	78,930	2,270
		Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
		Remeasurement of the net defined benefit liability comprising:		
60,960	-	- Return on plan assets (excluding the amount included in the net interest expense)	-181,850	-
-90,200	-1,760	- Actuarial gains and losses due to changes in financial assumptions	489,500	4,970
-	-	- Actuarial gains and losses due to changes in demographic assumptions	-7,810	-10
-22,200	-1,280	- Actuarial gains and losses due to liability experience	-107,040	-520
30,140	-770	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	271,730	6,710
		<b>Movement in Reserves Statement</b>		
-81,580	-2,270	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	-78,930	-2,270
		Actual amount charged against the General Fund Balance for pensions in the year:		
56,096	-	- Employer's contributions payable to the scheme	56,783	-
-	5,679	- Direct retirement benefits payable to pensioners	-	5,520

## 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:

2015-16			2016-17	
Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000		Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000
-2,402,560	-69,590	Present value of the defined benefit obligation	-2,837,520	-70,370
1,568,010	-	Fair value of plan assets	1,786,040	-
-834,550	-69,590	<b>Net liability arising from defined benefit obligation</b>	-1,051,480	-70,370
-215	69	Difference between actuaries' figures and actual contributions	1,983	-410
<b>-834,765</b>	<b>-69,521</b>	<b>Adjusted Total *</b>	<b>-1,049,497</b>	<b>-70,780</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

2015-16			2016-17	
Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000		Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000
1,594,560	-	<b>Opening fair value of scheme assets</b>	1,568,010	-
50,780	-	Interest Income	53,040	-
-60,960	-	Remeasurement gain/loss (-)	181,850	-
56,310	5,610	Contributions from employer	54,800	5,930
14,050	-	Contributions from employees into the scheme	14,210	-
-86,730	-5,610	Benefits paid	-85,870	-5,930
<b>1,568,010</b>	-	<b>Closing fair value of scheme assets</b>	<b>1,786,040</b>	<b>-</b>

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

2015-16			2016-17		
Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000		Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000	
2,455,280	75,970	<b>Opening balance at 1 April</b>	2,402,560	69,590	
51,120	-	Current service cost	50,170	-	
77,430	2,270	Interest cost	80,490	2,270	
14,050	-	Contributions by scheme participants	14,210	-	
		Remeasurement gains (-) and losses:			
-90,200	-1,760	Actuarial gains and losses due to changes in financial assumptions	489,500	4,970	
-	-	Actuarial gains and losses due to changes in demographic assumptions	-7,810	-10	
-22,200	-1,280	Actuarial gains and losses due to liability	-107,040	-520	
3,810	-	Past service cost (including curtailments)	1,310	-	
-86,730	-5,610	Benefits paid	-85,870	-5,930	
<u>2,402,560</u>	<u>69,590</u>	<b>Closing balance at 31 March</b>	<u>2,837,520</u>	<u>70,370</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 2016			31 March 2017			
Fair Value of scheme assets £000			Fair Value of scheme assets £000			
Quoted	Unquoted	Total		Quoted	Unquoted	Total
639,748	-	639,748	Equity investments	843,011	-	843,011
20,384	105,057	125,441	Property	21,432	112,521	133,953
407,683	94,081	501,764	Government bonds	484,017	96,446	580,463
-	141,121	141,121	Corporate bonds	-	146,455	146,455
159,937	-	159,937	Cash	82,158	-	82,158
<u>1,227,752</u>	<u>340,259</u>	<u>1,568,011</u>	<b>Total</b>	<u>1,430,618</u>	<u>355,422</u>	<u>1,786,040</u>

### 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 2016.

The principal assumptions used by the actuary have been:

2015-16		2016-17	
Local Government Pension Scheme	Discretionary Benefits Arrangements	Local Government Pension Scheme	Discretionary Benefits Arrangements
<b>Mortality assumptions:</b>			
Longevity at 65 for current pensioners:			
22.7	22.7 - Men	23.2	23.2
25.2	25.2 - Women	24.9	24.9
Longevity at 65 for future pensioners:			
24.9	n/a - Men	25.4	n/a
27.5	n/a - Women	27.2	n/a
<b>Principal financial assumptions (% per annum)</b>			
2.9	2.9 - Rate of inflation (RPI)	3.1	3.1
1.8	1.8 - Rate of inflation (CPI)	2.0	2.0
3.3	n/a - Rate of increase in salaries	3.5	n/a
1.8	1.8 - Rate of increase in pensions	2.0	2.0
3.4	3.4 - Rate for discounting scheme liabilities	2.6	2.6

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below are 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 2015/16.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2017 and the projected service cost for the year ending 31 March 2018 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)	2,786,370	2,837,520	2,889,610
Change in present value of total obligation	-1.8%		1.8%
Projected service cost (£000)	67,700	69,790	71,940
Approximate change in projected service cost	-3.0%		3.1%

**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)	2,850,840	2,837,520	2,824,360
Change in present value of total obligation	0.5%		-0.5%
Projected service cost (£000)	69,790	69,790	69,790
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)	2,876,190	2,837,520	2,799,420
Change in present value of total obligation	1.4%		-1.3%
Projected service cost (£000)	71,940	69,790	67,700
Approximate change in projected service cost	3.1%		-3.0%

**Post retirement mortality assumption**

Adjustment to mortality age rating assumption *	- 1 year	Base Figure	+ 1 year
Present value of total obligation (£000)	2,921,610	2,837,520	2,753,960
Change in present value of total obligation	3.0%		-2.9%
Projected service cost (£000)	72,310	69,790	67,290
Approximate change in projected service cost	3.6%		-3.6%

\* 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 21 years from 1 April 2017. Funding levels are monitored on an annual basis.

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 £98.640m contributions to the scheme in 2017/18 (£54.780m in 2016/17). This includes a £40.500m advance payment in April 2017 in respect of amounts due from 2017/18 to 2019/20 (£nil advance payment paid in 2016/17). The advance payment will be held on the Balance Sheet and the charge will be released to the Comprehensive Income and Expenditure Statement in 2018/19 and 2019/20.

The weighted average duration of the defined benefit obligation for scheme members is 18.2 years at 31 March 2017 (18.1 years at 31 March 2016).

## **47. 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 contributors 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 have been 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) Grievance Claims**

The council has received multiple grievances from a Trade Union over potential discriminatory impact in relation to terms and conditions of employment of some employees. They may escalate to formal claims based upon loss of salary over a period of time.

**e) Employment Disputes**

The Council is currently in discussions with HM Revenue and Customs regarding the treatment for income tax liability on settlement payments. These are settlements of staffing disputes such as unfair dismissal, constructive dismissal, discrimination or breach of contract.

**f) 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 £6.7m.

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 no further contradictory advice was received from our Insurance Advisors during 2016/17, the liability was again provided for at 34%. 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.

**g) 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.

#### **h) 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 slowly due to availability and ability to secure soils within the County 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 2018/19 subject to having sufficient soils and a 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 most recent review by the Environment Agency actually took place in April 2017 resulting in an increase of the provision to £5.108m. 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.

#### **i) Tribunal and Court Claims**

The Council is currently involved in a small number of tribunal and court claims where potentially damages may be awarded against the Council. The Council feels it has a strong case to defend the claims. However, there is no certainty of the outcome of these cases, or of amounts involved; therefore a contingent liability has been included in the accounts.

#### **j) 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.

#### **k) Claims by NHS Trusts and Foundation Trusts for Non-Domestic Rating Relief**

The Council received requests in 2015/16 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 still 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 £15.1m for the period 2010/11 to 2016/17. Of this amount £7.4m 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.

## **48. 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 ending on 31 March 2030.

### **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.

## **49. 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

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**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 Easter Saturday until the end of 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. This includes 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.

## 50. 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 comparator figures in respect of 2015/16.

- **Assets transferred and retained** - the Council transferred 18,427 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 (SLAs)** - agreements were negotiated with CDHG to provide them with a range of services post transfer. The main SLAs 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. However, 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).

## 51. 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 supports 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 Sedgefield Clinical Commissioning Group (CCGs).

The Pooled Budget is hosted by the Local Authority on behalf of the three partners to the agreement.

31 March 2016 £000	31 March 2017 £000
<b>Funding Provided to BCF</b>	
4,542 Local Authority (capital)	5,653
39,193 CCGs	38,926
<b>43,735</b>	<b>44,579</b>
<b>Expenditure met from BCF</b>	
23,762 Local Authority (revenue)	24,064
4,542 Local Authority (capital)	4,890
15,431 CCGs	15,625
<b>43,735</b>	<b>44,579</b>
<b>- Net surplus on pooled budget</b>	<b>-</b>
<b>- Authority share of the net surplus arising from pooled budget</b>	<b>-</b>

## 52. Prior Period Adjustments (PPAs)

### Comparator Restatement – Comprehensive Income and Expenditure Statement

The Code now requires the service analysis in the Comprehensive Income and Expenditure Statement to be based on the organisational structure under which the Council operates and manages its services. Previously the presentation was based on the service expenditure analysis set out in CIPFA's Service Reporting Code of Practice for Local Authorities (SeRCOP). The 2015/16 comparative figures have been restated to reflect this change. There is no net impact on the Cost of Services, and the restatement only affects the Comprehensive Income and Expenditure Statement, and the presentation of the Termination Benefits note.

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. This is therefore an abbreviated HRA, containing only those disclosures where there were transactions or balances in 2015/16.

### HRA Income and Expenditure Statement

2015-16 £000		Notes	2016-17 £000
	Income		
-1,304	Dwelling Rents (Net of voids)		-
-17	Non Dwelling Rents (Net of voids)		-
-53	Charges for Services and Facilities		-
-541	Contributions towards Expenditure		-
-1,915	Total Income		-
	Expenditure		
3,813	Repairs and Maintenance		-
682	Supervision and Management		-
4,495	Total Expenditure		-
2,580	Net Expenditure of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement		-
2,580	Net Expenditure for HRA Services		-
15,499	Gain (-) or Loss on Sale of HRA Non-Current Assets		-
420	Interest Payable and Similar Charges		-
77,435	Premium payable on repayment of debt (Housing Stock Transfer)		-
-78	Interest and Investment Income		-
-207,035	Government Grant in respect of Housing Stock Transfer		-
-111,179	Deficit / Surplus (-) for the Year on HRA Services		-

## 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.

2015-16 £000		2016-17 £000	£000
26,078	Balance on the HRA at the end of the previous year	-	
111,179	Deficit (-) / Surplus for the year on the HRA Income and Expenditure Statement	-	
-114,101	Adjustments between accounting basis and funding basis under statute	-	
-2,922	Net Increase or decrease (-) before transfer to or from reserves	-	
-23,156	Transfers to (-) or from reserves	-	
-26,078	Increase or decrease (-) in the year on the HRA	-	-
-	<b>Balance on the HRA at the end of the current year</b>	-	-

The Secretary of State for Communities and Local Government approved the closure of the HRA in 2015/16 following Housing Stock transfer. All reserves held were transferred to the General Fund.

## 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.

2015-16 £000		2016-17 £000
129,600	Transfer to/from the Capital Adjustment Account	-
-15,499	Gain or loss (-) on sale of HRA Non-Current Assets	-
114,101	<b>Adjustments between accounting basis and funding basis under statute</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 50 of the Core Financial Statements.

## 2. Capital Receipt

2015-16 £000	Source of Receipt	2016-17 £000
30	Council House Sales (RTB Legislation)	-
604	Qualifying Council House Disposals	-
8	Council House Mortgage Repayments	-
-	Housing Land & Other Sales	-
<u>642</u>	<b>Total Capital Receipts</b>	<u>-</u>

## 3. Dwelling Rents

This sum represents the gross rental income due for one week of the year in 2015/16 after allowance is made for empty properties.

## 4. 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. This spend was in respect of outstanding contractual payments to a contractor for work completed before the end of March 2015.

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

2015-16		2016-17		
£000		Council Tax £000	NNDR £000	Total £000
<b>Income</b>				
-227,357	Council Tax due from Taxpayers	-238,796	-	-238,796
-116,611	Income from Business Ratepayers	-	-118,188	-118,188
-	Recovery of Previous Year's Estimated Deficit	-	-	-
-	Central Government	-	-3,346	-3,346
-	Durham County Council	-	-3,279	-3,279
-	County Durham & Darlington Fire & Rescue Authority	-	-67	-67
-343,968	Total Income	-238,796	-124,880	-363,676
<b>Expenditure</b>				
<b>Precepts and Demands</b>				
174,134	Durham County Council	185,798	-	185,798
10,921	113 Towns and Parishes and 1 Charter Trust	11,513	-	11,513
21,235	Durham Police and Crime Commissioner	22,219	-	22,219
12,261	County Durham & Darlington Fire & Rescue Authority	12,822	-	12,822
<b>Payment of Previous Year's Surplus</b>				
510	Central Government	-	-	-
500	Durham County Council	5,896	-	5,896
-	Durham Police and Crime Commissioner	719	-	719
10	County Durham & Darlington Fire & Rescue Authority	416	-	416
<b>Business Rates</b>				
55,916	Payment to Central Government	-	55,918	55,918
1,118	Payment to County Durham and Darlington Fire & Rescue Authority	-	1,118	1,118
54,810	Payment to Durham County Council, including Renewable Energy	-	54,842	54,842
601	Costs of Collection - Business Rates	-	600	600
<b>Bad &amp; Doubtful Debts</b>				
3,125	Write Offs	2,162	1,891	4,053
647	Change in Provision for Bad Debts	-497	-899	-1,396
10,563	Provision for Appeals	-	-46	-46
346,351	Total Expenditure	241,048	113,424	354,472
2,383	Movement on Fund Balance	2,252	-11,456	-9,204
-2,015	Surplus(-) /Deficit on Fund Brought Forward	-7,281	7,691	410
<b>368</b>	<b>Fund Balance Carried Forward</b>	<b>-5,029</b>	<b>-3,765</b>	<b>-8,794</b>
<b>Allocated to :</b>				
-2,337	Durham County Council	-4,237	-1,816	-6,053
3,101	Durham Police and Crime Commissioner	-502	-	-502
-354	County Durham and Darlington Fire & Rescue Authority	-290	-37	-327
-	Central Government	-	-1,853	-1,853
-42	Durham County Council - Renewable Energy	-	-59	-59
<b>368</b>		<b>-5,029</b>	<b>-3,765</b>	<b>-8,794</b>

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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	Proportion of Band 'D'	Band 'D' Equivalent
Up to £ 40,000	Band A	143,525	6/9ths	95,683
Over £ 40,000 up to £ 52,000	Band B	30,849	7/9ths	23,994
Over £ 52,000 up to £ 68,000	Band C	29,273	8/9ths	26,020
Over £ 68,000 up to £ 88,000	Band D	20,168	9/9ths	20,168
Over £ 88,000 up to £120,000	Band E	9,827	11/9ths	12,011
Over £120,000 up to £160,000	Band F	3,819	13/9ths	5,516
Over £160,000 up to £320,000	Band G	2,078	15/9ths	3,463
Over £320,000	Band H	267	18/9ths	534
		239,806		187,389
Net effect of discounts, reliefs, exemptions and premiums				53,496.6
<b>Chargeable Properties (Taxbase) 2016/17:</b>				<b>133,892.4</b>

The Council Tax Base for 2015/16 was 130,493.0

In 2016/17, the Band D charge was £1,649.38 (£1,591.12 2015/16) made up of Durham County Council £1,387.67 (£1,334.43 2015/16), Durham Police Authority £165.95 (£162.73 2015/16) and County Durham and Darlington Fire and Rescue Authority £95.76 (£93.96 2015/16). In addition, Band D Town and Parish precepts between £0 and £294.90 (£0 and £297.88 2015/16) 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 £2.578m surplus for 2016/17, which will be distributed to major preceptors during 2017/18. At 31 March 2017, the actual outturn was a surplus of £5.029m (surplus of £7.281m at 31 March 2016).

### 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 2017 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:

Category of Arrears	Year	Percentage provision applied
Category 1- No reminders yet sent	2016/17	20%
	2015/16	50%
	2014/15 and older	100%
Category 2- First, second or final reminder	2016/17	40%
	2015/16	65%
	2014/15 and older	100%
Category 3- Summons etc	2016/17	55%
	2015/16	90%
	2014/15 and older	100%

At 31 March 2017, the calculated provision of £18.679m covered 79% of arrears (£19.177m, 78% at 31 March 2016).

### Collection Fund – Council Tax Balance

The Collection Fund - Council Tax balance at 31 March 2017 amounted to a surplus of £5.029m (surplus of £7.281m at 31 March 2016).

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 Surplus/Deficit on Collection Fund - Council Tax £000	Provision for Bad Debts - Council Tax £000	Council Tax Arrears £000	Council Tax Overpayments and Prepayments £000
Durham County Council	-4,237	-15,764	19,878	-3,259
Durham Police and Crime Commissioner	-502	-1,849	2,332	-382
County Durham & Darlington Fire & Rescue Authority	-290	-1,066	1,345	-221
<b>Total Allocated</b>	<b>-5,029</b>	<b>-18,679</b>	<b>23,555</b>	<b>-3,862</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 2016/17, the general multiplier was £0.497 (£0.493 in 2015/16) and the small business multiplier was £0.484 (£0.480 in 2015/16). The total non-domestic rateable value for Durham County Council at 31 March 2017 was £306.544m (Valuation Office Agency (VOA) schedule dated 24 March 2017) (£307.581m at 31 March 2016).

From 1 April 2013, the Business Rates Retention Scheme (BRRS) 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 2016/17 were estimated before the start of the year on the NNDR1, a statutory document submitted in January 2016. In addition, during 2016/17, the estimated surplus for 2015/16 was paid to shareholders as shown on the Income and Expenditure Account.

The estimated outturn for 2016/17 was included on the NNDR1 for 2017/18, submitted in January 2017. This predicted a surplus of £1.696m (deficit £6.692m estimated for 2015/16) of which Durham County Council's share would be £0.831m (deficit of £3.279m for 2015/16). 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 2017, the actual outturn was a surplus of £3.706m (deficit of £7.691m in 2015/16). In addition, income from Renewable Energy amounted to £0.100m (£0.042m in 2015/16).

#### **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 2017 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	2016/17	20%
	2015/16	50%
	2014/15 and older	100%
Category 2- First, second or final reminder	2016/17	40%
	2015/16	65%
	2014/15 and older	100%
Category 3- Summons etc	2016/17	55%
	2015/16	90%
	2014/15 and older	100%

At 31 March 2017, the calculated provision of £4.159m covered 71% of arrears (£5.057m, 73% at 31 March 2016).

### Provision for Appeals

Business Ratepayers are entitled to appeal to the VOA 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 2017, the provision for Appeals was estimated at £18.201m (£18.247m at 31 March 2016).

**Collection Fund Balance - Business Rates**

The Collection Fund – Business Rates balance at 31 March 2017 amounted to a surplus of £3.706m (deficit of £7.691m at 31 March 2016).

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 2017.

<b>Authority</b>	<b>Year-end Surplus/Deficit on Collection Fund - NNDR £000</b>	<b>Provision for Bad Debts - NNDR £000</b>	<b>Business Rates Arrears £000</b>	<b>Business Rates Overpayments and Prepayments £000</b>	<b>Provision for Appeals £000</b>
Durham County Council	-1,816	-2,038	2,861	-1,109	-8,919
Central Government	-1,853	-2,079	2,919	-1,132	-9,101
County Durham & Darlington Fire & Rescue Authority	-37	-42	58	-22	-182
<b>Total Allocated</b>	<b>-3,706</b>	<b>-4,159</b>	<b>5,838</b>	<b>-2,263</b>	<b>-18,202</b>

## Fund Account

2015-16			2016-17		
£000	£000		Notes	£000	£000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND</b>					
-112,035		Contributions receivable	7	-106,715	
-3,680		Transfers in from other pension funds	8	-4,974	
-5		Other income		-3	
	-115,720				-111,692
110,422		Benefits payable	9	114,152	
5,273		Payments to and on account of leavers	10	7,270	
	115,695				121,422
	<b>-25</b>	<b>Net withdrawals/ -additions from dealings with members, employers and others</b>			<b>9,730</b>
	11,490	<b>Management expenses</b>	11		11,877
<b>RETURN ON INVESTMENTS</b>					
-22,662		Investment income	12	-28,269	
24,955		Profit and losses on disposal of investments and change in market value of investments	14	-364,576	
	<b>2,293</b>	<b>Net returns on investments</b>			<b>-392,845</b>
	<b>13,758</b>	<b>NET -INCREASE/ DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR</b>			<b>-371,238</b>

**Net Assets Statement**

2015-16		2016-17			
£000	£000	Notes	£000	£000	
<b>INVESTMENT ASSETS</b>					
211,866		Equities	14	282,942	
519,293		Bonds	14	580,729	
<u>1,487,500</u>	2,218,659	Pooled investment vehicles	14	<u>1,778,540</u>	2,642,211
349		Loans	14	327	
Other cash deposits:					
79,484		Fund Managers	14	31,491	
17,217		Short term investments	14	8,431	
<u>12,880</u>	109,930	Derivative contracts	14	4,524	<u>44,773</u>
	<u>2,328,589</u>				<u>2,686,984</u>
<b>Other Investment Assets</b>					
1,925		Dividend accruals	14,17	1,766	
368		Tax recovery	14,17	480	
<u>13,388</u>	15,681	Other investment balances	14,17	<u>3,230</u>	<u>5,476</u>
<b>2,344,270</b>	<b>Total Investment Assets</b>			<b>2,692,460</b>	
<b>INVESTMENT LIABILITIES</b>					
-17,785		Derivative contracts	14	-2,989	
<u>-9,734</u>		Other investment balances	18	-1,981	
<b>-27,519</b>	<b>Total Investment Liabilities</b>			<b>-4,970</b>	
<b>2,316,751</b>	<b>NET INVESTMENT ASSETS</b>			<b>2,687,490</b>	
833	<b>Long Term Assets</b>	17		625	
<b>Current assets</b>					
8,563		Contributions due from employers	17	9,091	
<u>1,185</u>		Other current assets	17	<u>1,716</u>	
	9,748				10,807
<b>Current liabilities</b>					
<u>-6,115</u>		Current liabilities	18	<u>-6,467</u>	
	-6,115				-6,467
<b>2,321,217</b>	<b>NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH</b>			<b>2,692,455</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 (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2016

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.

	2012/13	2013/14	2014/15	2015/16	2016/17
Contributing Members	16,837	17,454	18,011	18,530	18,630
Pensioners in Payment	16,386	16,700	17,193	17,715	18,139
Pensioners Deferred	12,211	13,040	13,165	14,451	15,104

In comparison to the figures reported at 31 March 2016, the number of pensionable employees in the Fund at 31 March 2017 has increased by 100, the number of pensioners has increased by 424 and deferred pensioners have increased by 653.

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 115 at 31 March 2017), 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:

2015-16			2016-17	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
83,286	-70,340	Administering Authority	86,173	-71,078
20,567	-34,000	Scheduled Bodies	22,158	-28,273
6,569	-7,695	Admission Bodies	5,821	-7,364
<b>110,422</b>	<b>-112,035</b>		<b>114,152</b>	<b>-106,715</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 2016/17 (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 to pay pension benefits. 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 2016/17, the results of which determined the contribution rates effective from 1 April 2017 to 31 March 2020. Details of the latest valuation are included in Note 22.

## 3. Statement of 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 allocated to the Pension Fund as administrative expenses.

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Note 11 provides further information regarding the basis of Investment Managers' Fees. 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, which are apportioned on the basis of staff time spent on the Fund and include all associated overheads, 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.

## ***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.

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 traded on an exchange are accounted for on a bid market price basis, where Investment Managers provide valuations in this manner;
- Fixed interest securities 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 managed funds 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 managed funds 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 actuarial 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.

### **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.

## **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 investments 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 81% as at 31 March 2016 (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>- 75% if life expectancy increases by 3 years</li> <li>- 67% if discount rate falls by 1%</li> <li>- 67% if inflation increases by 1%</li> <li>- 68% if equities fall by 25%</li> <li>- 78% if pensionable pay increases by 1%</li> </ul>
Fair Value of Investments	The Accounts are as at 31 March 2017 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 £165.4m at 31/3/17 (£154.1m at 31/3/16). Every 1% increase/ decrease in fair value would result in an increase/ decrease in the value of the Fund by £1.654m (£1.541m at 31/3/16).

## 6. Post Net Assets Statement (Balance Sheet) Event

There have been no events after 31 March 2017 which require any adjustments to be made to these accounts.

**7. Contributions Receivable**

2015-16 £000		2016-17 £000
	<b>Employer contributions:</b>	
-49,770	Normal	-49,580
-6,400	Augmentation	-5,797
-32,827	Deficit funding	-28,059
	<b>Member contributions:</b>	
-22,929	Normal	-23,191
-109	Additional contributions	-88
<b>-112,035</b>		<b>-106,715</b>
-70,340	Administering Authority	-71,078
-34,000	Scheduled Bodies	-28,273
-7,695	Admission Bodies	-7,364
<b>-112,035</b>		<b>-106,715</b>

**8. Transfers in From Other Pension Funds**

2015-16 £000		2016-17 £000
-3,680	Individual Transfers	-4,974
<b>-3,680</b>		<b>-4,974</b>

**9. Benefits Payable**

2015-16 £000		2016-17 £000
90,708	Pensions	93,285
22,514	Commutations and lump sum retirement benefits	23,344
2,035	Lump sum death benefits	2,167
-4,835	Recharged benefits	-4,644
<b>110,422</b>		<b>114,152</b>
83,286	Administering Authority	86,173
20,567	Scheduled Bodies	22,158
6,569	Admission Bodies	5,821
<b>110,422</b>		<b>114,152</b>

**10. Payments To and On Account of Leavers**

<b>2015-16</b>		<b>2016-17</b>
<b>£000</b>		<b>£000</b>
153	Refunds to members leaving service	297
61	Payments for members joining state scheme	75
5,059	Individual transfers to other schemes	6,329
-	Group transfers to other schemes	569
<b>5,273</b>		<b>7,270</b>

**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>2015-16</b>		<b>2016-17</b>
<b>£000</b>		<b>£000</b>
854	Administration expenses	905
9,962	Investment Management expenses	10,330
674	Oversight and Governance costs	642
<b>11,490</b>		<b>11,877</b>

Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2016/17 of £0.026m (£0.026m in 2015/16).

## 12. Investment Income

2015-16 £000		2016-17 £000
-5,089	Interest from bonds	-5,391
-6,860	Dividends from equities	-7,448
-102	Interest on cash deposits	-684
-10,611	Income from pooled investment vehicles	-14,746
<b>-22,662</b>		<b>-28,269</b>

## 13. Taxation

The Code 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 2016/17 to manage the Pension Fund's assets:

- Aberdeen Asset Management Limited (Aberdeen)
- AB (Formerly AllianceBernstein Limited)
- 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 2016	Investment Manager	Asset Class	31 March 2017
%			%
15	Aberdeen	Global equities	15
15	AB	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 allocations vary slightly from the long-term strategic allocations due to market movements. The actual market values of investments held by each Investment Manager as at 31 March were as follows :

31-Mar-16			31-Mar-17		
£000	%	Investment Manager	£000	%	
339,124	14.79	Aberdeen	440,069	16.45	
341,874	14.91	AB	357,972	13.38	
364,837	15.91	BNYM	444,824	16.63	
198	0.01	Barings	-	-	
437,984	19.10	Blackrock	489,644	18.30	
187,755	8.18	CBRE	216,266	8.09	
152,726	6.66	Mondrian	197,224	7.37	
28	-	Other - NEL	-	-	
468,712	20.44	RLAM	529,238	19.78	
<b>2,293,238</b>	<b>100.00</b>		<b>2,675,237</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 2017 excludes loans of £0.327m, cash invested by the administering authority of £8.431m, other investment assets of £5.476m and other investment liabilities of £1.981m (£0.349m, £17.217m, £15.681m and £9.734m respectively as at 31 March 2016).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2017, £2.675m (99.54%) is invested through Investment Managers (£2.293m or 98.99% at 31 March 2016).

**Reconciliation of Movements in Investments 2016/17**

Investment category	Value at 31 March 2016	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2017
	£000	£000	£000	£000	£000
Equities	211,866	124,863	-107,999	54,212	282,942
Bonds	519,293	2,714,495	-2,756,492	103,433	580,729
Pooled investment vehicles	1,487,500	233,241	-201,944	259,743	1,778,540
	2,218,659	3,072,599	-3,066,435	417,388	2,642,211
Derivative contracts:					
Futures, margins & options	-691	28,754	-20,561	-6,768	734
Forward foreign currency	-4,214			5,015	801
	<b>2,213,754</b>	<b>3,101,353</b>	<b>-3,086,996</b>	<b>415,635</b>	<b>2,643,746</b>
Other investment balances:					
Loans	349				327
Other cash deposits	96,701			-51,059	39,922
Dividend accruals	1,925				1,766
Tax recovery	368				480
Other investment balances	3,654				1,249
<b>Net Investment Assets</b>	<b>2,316,751</b>			<b>364,576</b>	<b>2,687,490</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 2015/16**

Investment category	Value at 31 March 2015	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2016
	£000	£000	£000	£000	£000
Equities	234,213	103,326	-105,533	-20,140	211,866
Bonds	564,765	2,025,849	-2,077,720	6,399	519,293
Pooled investment vehicles	1,392,430	228,960	-142,369	8,479	1,487,500
	2,191,408	2,358,135	-2,325,622	-5,262	2,218,659
Derivative contracts:					
Futures, margins & options	3,102	41,841	-38,621	-7,013	-691
Forward foreign currency	-3,877			-337	-4,214
	<b>2,190,633</b>	<b>2,399,976</b>	<b>-2,364,243</b>	<b>-12,612</b>	<b>2,213,754</b>
Other investment balances:					
Loans	375				349
Other cash deposits	165,402			-12,343	96,701
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>-24,955</b>	<b>2,316,751</b>

**Analysis of Investments**

2015-16			2016-17	
£000	£000		£000	£000
<b>ASSETS INVESTED THROUGH FUND MANAGERS</b>				
<b>Bonds</b>				
466,549		UK - Public sector - quoted	511,012	
33,455		Overseas - Public sector - quoted	69,717	
19,289		Overseas - Corporate - quoted	-	
	519,293			580,729
<b>Equities</b>				
41,520		UK quoted	45,087	
28		UK unquoted	-	
170,318		Overseas quoted	237,855	
	211,866			282,942
<b>Pooled Investment Vehicles</b>				
80,400		Managed funds - non property - UK quoted	113,196	
879,497		Managed funds - non property - overseas quoted	1,107,547	
341,874		Managed funds - non property - overseas unquoted	357,972	
1,815		Unit Trusts - property - UK quoted	2,086	
32,729		Unit Trusts - property - UK unquoted	18,302	
29,804		Unit Trusts - property - Overseas quoted	32,289	
121,381		Unit Trusts - property - Overseas unquoted	147,148	
	1,487,500			1,778,540
<b>Derivative Contracts</b>				
12,880		Assets	4,524	
-17,785		Liabilities	-2,989	
	-4,905			1,535
79,484	79,484	<b>Fund Managers' cash</b>	31,491	31,491
<b>2,293,238</b>		<b>NET ASSETS INVESTED THROUGH FUND MANAGERS</b>		<b>2,675,237</b>
<b>OTHER INVESTMENT BALANCES</b>				
17,217		Short term investments (via DCC Treasury Management)		8,431
349		Loans		327
15,681		Other investment assets		5,476
-9,734		Other investment liabilities		-1,981
<b>2,316,751</b>		<b>NET INVESTMENT ASSETS</b>		<b>2,687,490</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:

2015-16		Derivative Contracts	2016-17	
£000	£000		£000	£000
		<b>Forward foreign currency</b>		
8,399		Assets	2,671	
<u>-12,613</u>		Liabilities	<u>-1,870</u>	
	-4,214	<b>Net Forward foreign currency</b>		801
		<b>Futures</b>		
1,232		Assets	585	
<u>-1,388</u>		Liabilities	<u>-155</u>	
	-156	<b>Net Futures</b>		430
		<b>Options</b>		
3,249		Assets	1,268	
<u>-3,784</u>		Liabilities	<u>-964</u>	
	-535	<b>Net Options</b>		304
	<u><b>-4,905</b></u>	<b>Net market value of derivative contracts</b>		<u><b>1,535</b></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 2017 and 31 March 2016.

Notes to Durham County Council Pension Fund Accounts

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
1 to 3 mths	USD	1,470,000	AUD	-1,914,703	9	
1 to 3 mths	USD	1,210,000	BRL	-3,802,062	25	
1 to 3 mths	USD	10,850,000	CAD	-14,150,896	184	
1 to 3 mths	USD	8,120,000	CHF	-8,058,126	31	
1 to 3 mths	USD	6,200,000	CLP	-3,990,940,000	152	
1 to 3 mths	GBP	49,018,213	EUR	-57,120,000	88	
1 to 3 mths	EUR	2,200,000	GBP	-1,915,903		-31
1 to 3 mths	SEK	27,573,779	EUR	-2,920,000		-28
1 to 3 mths	EUR	41,860,000	USD	-44,711,085	157	
1 to 3 mths	GBP	3,358,132	JPY	-470,000,000		-18
1 to 3 mths	GBP	5,150,000	PLN	-26,102,260		-107
1 to 3 mths	GBP	2,200,966	TRY	-10,380,000		-32
1 to 3 mths	GBP	1,585,000	USD	-1,973,404	9	
1 to 3 mths	GBP	40,444,159	USD	-50,355,000	236	
1 to 3 mths	GBP	1,585,000	USD	-1,973,420	9	
1 to 3 mths	GBP	40,443,834	USD	-50,355,000	236	
1 to 3 mths	GBP	1,590,000	USD	-1,980,459	9	
1 to 3 mths	GBP	40,423,195	USD	-50,350,000	219	
1 to 3 mths	USD	13,000,000	GBP	-10,619,874		-240
1 to 3 mths	USD	1,000,000	GBP	-801,852		-3
1 to 3 mths	USD	2,200,000	HKD	-17,052,792	2	
1 to 3 mths	IDR	21,845,700,000	USD	-1,620,000	9	
1 to 3 mths	INR	122,491,750	USD	-1,810,000	55	
1 to 3 mths	USD	1,200,000	KRW	-1,365,468,000		-18
1 to 3 mths	KRW	1,370,820,000	USD	-1,200,000	22	
1 to 3 mths	USD	10,210,000	MXN	-210,977,092		-703
1 to 3 mths	MYR	10,822,105	USD	-2,410,000	16	
1 to 3 mths	PHP	283,052,150	USD	-5,615,000		-3
1 to 3 mths	USD	1,660,000	SGD	-2,352,094		-19
1 to 3 mths	SGD	850,726	USD	-600,000	7	
1 to 3 mths	USD	3,880,000	THB	-135,889,240		-65
1 to 3 mths	USD	6,630,000	TRY	-24,967,917		-77
1 to 3 mths	USD	11,370,000	TWD	-347,626,380		-78
1 to 3 mths	AUD	11,299,503	GBP	-6,862,949		-3
1 to 3 mths	EUR	34,743,034	GBP	-30,033,616	263	
1 to 3 mths	USD	87,011,920	GBP	-69,340,495		-97
1 to 3 mths	JPY	1,889,517,790	GBP	-13,570,223		-6
1 to 3 mths	AUD	5,355,688	GBP	-3,252,870		-1
1 to 3 mths	USD	895,848	GBP	-713,908		-1
1 to 3 mths	JPY	164,020,249	GBP	-1,177,968		-1
1 to 3 mths	EUR	3,787,663	GBP	-3,274,245	28	
1 to 3 mths	USD	177,005	GBP	-141,057	-	
1 to 3 mths	DKK	16,843,346	GBP	-1,954,211	13	
1 to 3 mths	SEK	12,750,547	GBP	-1,157,457	13	
1 to 3 mths	JPY	972,939,089	GBP	-6,987,497		-3
1 to 3 mths	USD	2,510,935	GBP	-2,000,984		-3
1 to 3 mths	GBP	6,518,048	AUD	-10,486,913	139	
1 to 3 mths	GBP	2,897,543	CAD	-4,740,597	57	
1 to 3 mths	GBP	1,813,142	EUR	-2,086,806	25	
1 to 3 mths	GBP	2,221,207	USD	-2,711,838	56	
1 to 3 mths	GBP	8,875,167	USD	-10,812,261	244	
1 to 3 mths	GBP	837,978	EUR	-962,538	13	
1 to 3 mths	GBP	3,208,536	USD	-3,907,054	90	
1 to 3 mths	GBP	2,128,388	USD	-2,597,235	55	
1 to 3 mths	GBP	1,187,053	CAD	-1,951,331	18	
1 to 3 mths	GBP	1,200,107	USD	-1,469,644	27	
1 to 3 mths	GBP	1,921,738	USD	-2,352,067	44	
1 to 3 mths	USD	1,584,001	GBP	-1,293,520		-29
1 to 3 mths	USD	9,553,117	GBP	-7,714,928		-88
1 to 3 mths	USD	2,020,893	GBP	-1,630,774		-17

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
1 to 3 mths	USD	3,397,540	GBP	-2,738,373		-26
1 to 3 mths	CAD	3,404,106	GBP	-2,055,502		-16
1 to 3 mths	USD	5,756,705	GBP	-4,601,767		-6
1 to 3 mths	AUD	6,214,777	GBP	-3,804,205		-24
1 to 3 mths	USD	1,292,779	GBP	-1,034,930		-3
1 to 3 mths	GBP	9,094,175	EUR	-10,514,712	86	
1 to 3 mths	GBP	1,047,287	EUR	-1,209,613	11	
1 to 3 mths	GBP	7,377,220	USD	-9,232,590	6	
1 to 3 mths	USD	1,943,815	GBP	-1,543,862	8	
1 to 3 mths	AUD	4,515,187	GBP	-2,769,556		-23
1 to 3 mths	EUR	4,941,538	GBP	-4,285,455		-52
1 to 3 mths	EUR	4,654,606	GBP	-4,036,618		-49

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**2,671                      -1,870**

**Net forward foreign currency contracts at 31 March 2017**

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Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £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 to 1 mth	CZK	3,652,185	EUR	-135,139		-
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 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 £000	Liability Value £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 £000	Liability Value £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		-
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>-4,214</b>

Net forward foreign currency contracts at 31 March 2016

**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 17	
				£000	£000
<b>Assets</b>					
Overseas equity	1 to 3 mths	S&P500 EMINI JUN 17	EUR	539	
Overseas equity	1 to 3 mths	EURO STOXX 50 JUN 17	USD	46	
<b>Total assets</b>					585
<b>Liabilities</b>					
UK equity	1 to 3 mths	FTSE 100 INDEX JUN 17	GBP	-34	
Overseas equity	1 to 3 mths	EURO STOXX BANK JUN 17	EUR	-58	
Overseas equity	1 to 3 mths	STOXX 600 HEALTH JUN 17	EUR	-63	
<b>Total liabilities</b>					-155
<b>Net Futures Contracts at 31 March 2017</b>					<u>430</u>

	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 16 15/6/2016	AUD	858	
Overseas equity	1 to 3 mths	E-MINI CONSUMER STAPLES JUN 16	USD	170	
Overseas equity	1 to 3 mths	S&P500 EMINI JUN 16	USD	204	
<b>Total assets</b>					1,232
<b>Liabilities</b>					
Overseas equity	1 to 3 mths	E-MINI UTILITIES SELECT SECTOR JUN	USD	-403	
Overseas equity	1 to 3 mths	STOXX 600 INDUS JUN 16	EUR	-742	
Overseas fixed interest	1 to 3 mths	US ULTRA T-BOND JUN 16 21/6/2016	USD	-243	
<b>Total liabilities</b>					-1,388
<b>Net Futures Contracts at 31 March 2016</b>					<u>-156</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 31 March 17 £000
<b>Assets</b>				
Overseas equity	1 to 3 mths	S&P 500 INDEX 19/05/2017 P @ 2300.000	USD	419
Overseas fixed interest	Less than 1 year	USD C CNH P @7.000000 EO	USD	188
UK equity	1 to 3 mths	FTSE 100 INDEX 16/06/2017 P @ 6900.000	GBP	179
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 16/06/2017 P @ 3150.000	EUR	168
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 16/06/2017 C @ 3725.000	EUR	98
Overseas equity	Less than 1 year	EURO STOXX 50 INDEX 15/12/2017 C @ 4000.000	EUR	96
Overseas equity	Less than 1 year	S&P 500 INDEX 15/12/2017 P @ 2000.000	USD	87
Overseas fixed interest	Less than 1 year	USD P CNH C @6.600000 EO	USD	17
UK fixed interest	1 to 3 mths	GBP C USD P @1.300000 EO	GBP	8
UK fixed interest	1 to 3 mths	GBP C USD P @1.300000 EO	GBP	4
UK fixed interest	1 to 3 mths	GBP C USD P @1.300000 EO	GBP	4
<b>Total assets</b>				<b>1,268</b>
<b>Liabilities</b>				
Overseas fixed interest	Less than 1 year	USD P CNH C @6.600000 EO	USD	-17
Overseas equity	Less than 1 year	S&P 500 INDEX 15/12/2017 P @ 1875.000	USD	-55
Overseas equity	1 to 3 mths	EURO STOXX BANKS 16/06/2017 C @ 140.000	EUR	-81
UK equity	1 to 3 mths	FTSE 100 INDEX 16/06/2017 P @ 6600.000	GBP	-82
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 16/06/2017 P @ 3000.000	EUR	-87
Overseas fixed interest	Less than 1 year	USD C CNH P @7.000000 EO	USD	-188
UK equity	1 to 3 mths	FTSE 100 INDEX 16/06/2017 C @ 7300.000	GBP	-454
<b>Total liabilities</b>				<b>-964</b>
<b>Net Options at 31 March 2017</b>				<b>304</b>

Type	Expires	Product Description	Currency	Market Value at 31 March 16 £000
<b>Assets</b>				
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 C @ 2925.000	EUR	930
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 P @ 2925.000	EUR	518
Overseas equity	1 to 5 years	S&P 500 INDEX 15/12/2017 P @	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 23/5/2016 C @ 875.000	USD	351
UK equity	1 to 3 mths	FTSE 100 INDEX 20/5/2016 P @	GBP	204
Overseas equity	1 to 3 mths	SPX VOLATILITY INDEX UX 01-JAN-2050 18/5/2016 C @ 23.000	USD	183
Overseas equity	1 to 5 years	EURO STOXX 50 INDEX 01-JAN-2050 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 15/4/2016 C @ 3100.000	EUR	-35
UK equity	1 to 3 mths	FTSE 100 INDEX 20/5/2016 P @	GBP	-60
Overseas equity	1 to 3 mths	MSCI EMERGING MARKETS INDEX 23/5/2016 C @ 925.000	USD	-111
Overseas equity	1 to 3 mths	EURO STOXX UTILITIES (PRICE) INDEX 17/6/2016 P @ 235.000	EUR	-143
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 C @ 3200.000	EUR	-153
Overseas equity	1 to 3 mths	SPX VOLATILITY INDEX UX 01-JAN-2050 18/5/2016 C @ 30.000	USD	-155
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 P @ 2975.000	EUR	-207
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 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	-2,222
<b>Total liabilities</b>				<b>-3,784</b>
<b>Net Options at 31 March 2016</b>				<b>-535</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 2017		At 31 March 2016	
		£m	%	£m	%
BNYM Long Term Global Equity	BNY Mellon	444.82	16.52	364.84	15.72
AAM L and P World Equity	Aberdeen	440.07	16.34	339.12	14.61
Diversified Yield Plus	AB	357.97	13.30	341.87	14.73

Single investments with a market value exceeding 5% of their type of asset are listed as follows:

### At 31 March 2017

Holding	Investment Manager	£000	%
<b>Bonds</b>			
UK Treasury 0.75% IL Gilt 22/11/47	Royal London	50,729	8.74
UK Treasury 2% IL 26/01/2035	Royal London	35,718	6.15
UK Treasury 1.25% IL Gilt 22/11/2055	Royal London	35,048	6.04
UK Treasury 0.125% IL 22/03/2068	Royal London	34,946	6.02
UK Treasury 0.375% IL 22/03/2062	Royal London	29,470	5.07
UK Treasury Gilt 0.125% IL 22/11/2036	Royal London	29,201	5.03

### Pooled Investment Vehicles

BNYM Long Term Global Equity	BNY Mellon	444,824	25.01
AAM L and P World Equity	Aberdeen	440,069	24.74
Diversified Yield Plus	AB	357,972	20.13
ICS INS GBP LIQ AGENCY DIS	BlackRock	110,616	6.22
BGF GLOBAL CORP BND X4RF GBP HDG	BlackRock	96,251	5.41

At 31 March 2016

<b>Holding</b>	<b>Investment Manager</b>	<b>£000</b>	<b>%</b>
<b>Bonds</b>			
UK Treasury 0.625% IL 22/11/2042	Royal London	37,989	7.32
UK Treasury 1.25% IL 22/11/2032	Royal London	35,829	6.90
UK Treasury 0.5% IL Gilt 22/03/2050	Royal London	35,727	6.88
UK Treasury 2.5% IL 17/07/24	Royal London	32,874	6.33
UK Treasury 0.625% IL 22/03/2040	Royal London	30,223	5.82
<b>Equities</b>			
ISHARES GOLD TRUST	BlackRock	17,363	8.20
<b>Pooled Investment Vehicles</b>			
BNYM Long Term Global Equity	BNYM	364,837	24.53
Diversified Yield Plus	AB	341,874	22.98
AAM L and P World Equity	Aberdeen	339,124	22.80
BGF GLOBAL CORP BND X4RF GBP HDG	BlackRock	108,805	7.31
ICS INS GBP LIQ AGENCY DIS	BlackRock	77,739	5.23

## 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:

2015-16			2016-17		
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>					
211,866			282,942		
519,293			580,729		
1,487,500			1,778,540		
12,880			4,524		
	349			327	
	79,484			31,491	
	17,217			8,431	
15,681			5,476		
	10,581			11,432	
<u>2,247,220</u>	<u>107,631</u>	<u>-</u>	<u>2,652,211</u>	<u>51,681</u>	<u>-</u>
<b>Financial liabilities</b>					
-17,785			-2,989		
-9,734		-6,115	-1,981		-6,467
<u>-27,519</u>	<u>-</u>	<u>-6,115</u>	<u>-4,970</u>	<u>-</u>	<u>-6,467</u>
<u><b>2,219,701</b></u>	<u><b>107,631</b></u>	<u><b>-6,115</b></u>	<u><b>2,647,241</b></u>	<u><b>51,681</b></u>	<u><b>-6,467</b></u>
	<u><b>2,321,217</b></u>				<u><b>2,692,455</b></u>
		<b>Net Assets at 31 March</b>			

### Net Gains and Losses on Financial Instruments

31 March 2016		31 March 2017
£000		£000
(Restated)		
<b>Financial Assets</b>		
-12,612	Fair Value through profit and loss	415,635
-12,343	Loans and receivables	-51,059
<b>Financial Liabilities</b>		
-	Fair Value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
<u>-24,955</u>	<b>Total</b>	<u>364,576</u>

The 31 March 2016 figures have been restated in line with the figures shown in the Reconciliation of Movements in Investments 2015/16 table. The total remains unchanged.

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## 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 2017 and 31 March 2016, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2017	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial Assets</b>				
Financial Assets at fair value through profit and loss	2,128,790	357,971	165,450	2,652,211
Loans and receivables	51,681	-	-	51,681
<b>Total Financial Assets</b>	<b>2,180,471</b>	<b>357,971</b>	<b>165,450</b>	<b>2,703,892</b>
<b>Financial Liabilities</b>				
Financial Liabilities at fair value through profit and loss	-4,970	-	-	-4,970
Financial Liabilities at amortised cost	-6,467	-	-	-6,467
<b>Total Financial Liabilities</b>	<b>-11,437</b>	<b>-</b>	<b>-</b>	<b>-11,437</b>
<b>Net Financial Assets</b>	<b>2,169,034</b>	<b>357,971</b>	<b>165,450</b>	<b>2,692,455</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2016 (Restated)	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial Assets</b>				
Financial Assets at fair value through profit and loss	1,751,208	341,902	154,110	2,247,220
Loans and receivables	107,631	-	-	107,631
<b>Total Financial Assets</b>	<b>1,858,839</b>	<b>341,902</b>	<b>154,110</b>	<b>2,354,851</b>
<b>Financial Liabilities</b>				
Financial Liabilities at fair value through profit and loss	-27,519	-	-	-27,519
Financial Liabilities at amortised cost	-6,115	-	-	-6,115
<b>Total Financial Liabilities</b>	<b>-33,634</b>	<b>-</b>	<b>-</b>	<b>-33,634</b>
<b>Net Financial Assets</b>	<b>1,825,205</b>	<b>341,902</b>	<b>154,110</b>	<b>2,321,217</b>

The values at 31 March 2016 table has been restated to show derivative assets and liabilities as Level 1 investments.

## 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. Risk exposure is limited by applying maximum exposure restrictions on individual investments to each Investment Manager's portfolio.

#### **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. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

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 2016/17 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 at 31 March 2017 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen	Global equity	440,069	18.7%	522,362	357,776
AB	Broad Bonds	357,972	8.0%	386,610	329,334
BNYM	Global equity	444,824	18.7%	528,006	361,642
BlackRock	DAA	480,622	9.4%	525,800	435,444
CBRE	Unlisted property	165,450	14.5%	189,440	141,460
CBRE	Listed property	34,375	21.7%	41,834	26,916
Mondrian	Emerging market equity	195,330	29.0%	251,976	138,684
RLAM	UK Index Linked Gilts	523,569	8.8%	569,643	477,495
	Loans	327	0.0%	327	327
	Cash	39,922	0.0%	39,922	39,922
	Net derivative assets	1,535	0.0%	1,535	1,535
	Net investment balances	3,495	0.0%	3,495	3,495
<b>Total change in net investment assets available</b>		<b>2,687,490</b>		<b>3,060,950</b>	<b>2,314,030</b>

Manager	Asset type	Asset value at 31 March 2016 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen	Global equity	339,124	18.8%	402,879	275,369
AB	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	96,701	0.0%	96,701	96,701
	Net derivative assets	-4,905	0.0%	-4,905	-4,905
	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>

## 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 2017 and the effect of a +/- 25 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 31 March 2017	Change in year in the net assets available to pay benefits	
		+25 BPS	-25 BPS
	£000	£000	£000
Cash and cash equivalents	39,922	100	-100
Fixed interest securities	57,283	143	-143
<b>Total change in net investment assets available</b>	<b>97,205</b>	<b>243</b>	<b>-243</b>

Asset type	Asset Values at 31 March 2016	Change in year in the net assets available to pay benefits	
		+25 BPS	-25 BPS
	£000	£000	£000
Cash and cash equivalents	96,701	242	-242
Fixed interest securities	50,997	127	-127
<b>Total change in net investment assets available</b>	<b>147,698</b>	<b>369</b>	<b>-369</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'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 17	Value on increase	Value on decrease
				£000	£000	£000
Aberdeen	Global Equity	100%	15%	440,069	506,079	374,059
AB	Broad Bonds	0%	0%	357,972	357,972	357,972
BlackRock	DAA	100%	10%	480,622	528,684	432,560
BNYM	Global Equity	100%	15%	444,824	511,548	378,100
CBRE	Global Property	100%	10%	199,825	219,808	179,843
Mondrian	Emerging market equity	100%	15%	195,330	224,630	166,031
RLAM	UK Index Linked Gilts	0%	0%	523,569	523,569	523,569
	Loans	0%	0%	327	327	327
	Cash	0%	0%	39,922	39,922	39,922
	Net derivative assets	0%	0%	1,535	1,535	1,535
	Net investment balances	0%	0%	3,495	3,495	3,495
<b>Total change in net investment assets available</b>				<b>2,687,490</b>	<b>2,917,569</b>	<b>2,457,413</b>

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Asset value at Volatility	31 March 16	Value on increase	Value on decrease
				£000	£000	£000
Aberdeen	Global Equity	100%	15%	339,124	389,993	288,255
AB	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%	96,701	96,701	96,701
	Net derivative assets	0%	0%	-4,905	-4,905	-4,905
	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>

## 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 is exposed to some form of credit risk with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. 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 2017, this level of exposure to the Custodian is only 1.2% of the total value of the portfolio (3.5% as at 31 March 2016).

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 £8.431m as at 31 March 2017 (£17.217m at 31 March 2016). This was held with the following institutions:

	Rating as at 31 March 2017	Balances £000	Rating as at 31 March 2016	Balances £000
<b>Bank Deposit Accounts</b>				
Handelsbanken	F1+	259	F1+	62
Barclays		-	F1	1,209
Santander UK Plc	F1	458	F1	94
<b>Fixed Term Deposits</b>				
Leeds Building Society	F1	687		-
Royal Bank of Scotland		-	F1	1,612
Barclays		-	F1	1,612
Bank of Scotland	F1	1,603	F1	4,836
Nationwide Building Society	F1	458	F1	2,014
Goldman Sachs	F1	1,145	F1	2,820
UK Local Authorities	N/A	2,861	N/A	898
<b>Income Bond</b>				
National Savings & Investments	N/A	46	N/A	81
<b>Other</b>				
Money Market Funds	N/A	914	N/A	1,979
<b>Total</b>		<b>8,431</b>		<b>17,217</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 2016, 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

2015-16 £000		2016-17 £000
1,292	Central government bodies	1,073
6,930	Other local authorities	8,347
18,040	Other entities and individuals	7,488
<u>26,262</u>	<b>Total debtors</b>	<u>16,908</u>
	<b>Included in the Net Assets Statement as:</b>	
833	Long Term Assets	625
15,681	Other Investment Assets	5,476
9,748	Current Assets	10,807
<u>26,262</u>		<u>16,908</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

2015-16 £000		2016-17 £000
-815	Central government bodies	-828
-1,388	Other local authorities	-1,417
-13,646	Other entities and individuals	-6,203
<u>-15,849</u>	<b>Total creditors</b>	<u>-8,448</u>
	<b>Included in the Net Assets Statement as:</b>	
-9,734	Investment Liabilities - Other balances	-1,981
-6,115	Current Liabilities	-6,467
<u>-15,849</u>		<u>-8,448</u>

All of the £8.448m 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 31 March 2016 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2017 £000
Equitable Life	2,103	76	263	173	2,089
Prudential	4,609	1,165	1,015	350	5,109
Standard Life	1,766		awaiting information from Standard Life		
<b>Total</b>	<u><b>8,478</b></u>	<u><b>1,241</b></u>	<u><b>1,278</b></u>	<u><b>523</b></u>	<u><b>7,198</b></u>

\* Purchases represent the amounts paid to AVC providers in 2016/17

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 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

## 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:

- Employer related
- Member related
- 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	
		2015/16	2016/17
Contributions receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£112.035m	£106.715m
Debtors	Amounts due in respect of employers and employee contributions	£8.146m	£8.674m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.388m	£1.417m
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	£1.388m	£1.417m
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 £0.239m	Loans outstanding £0.233m
Investment Income	Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance during the year and interest earned were:	Balance = £51.289m Interest = £0.233m	Balance = £21.368m Interest = £0.069m

**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.

As at 31 March 2017 there were four Members of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund; a further three Members were active members of the Pension Fund. With effect from 8 May 2017 Members are no longer allowed to be 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.

There were no material related party transactions between any officers or their families and the Pension Fund.

The key management personnel of the Fund are the Members of the Pension Fund Committee and the Corporate Director Resources.

Disclosure requirements for officer remuneration and members allowances can be found in the main accounts of Durham County Council.

**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 Regulation 62 of the Local Government Pension Scheme Regulations 2013 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 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 2016 actuarial valuation the Fund was assessed as being 81% funded (84% at 31 March 2013). This corresponded to a deficit of £529.3m (£379.2m at 31 March 2013).

The aim is to achieve 100% solvency over a period of 21 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The aggregate employer future service contribution rate (the primary contribution rate, a weighted average of all employers’ primary rates) as 16.7% of pensionable pay.

The aggregate employer total contribution rate (primary plus secondary) required to restore the funding ratio to 100%, using a recovery period of 21 years from 1 April 2017, is 24.6% of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

Across the Fund as a whole, the contributions required to remove the shortfall using a recovery period of 21 years from 1 April 2017 would be £28.6m per annum, increasing at 3.5% per annum. This is equivalent to approximately 7.9% per annum of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

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 2016	Valuation as at 31 March 2013
<b>Financial Assumptions</b>		
Discount rate for periods in service	4.5% pa	5.4% pa
Discount rate for periods after leaving service	4.5% pa	5.4% pa
Rate of revaluation of pension accounts	2.0% pa	2.4% pa
Rate of pension increases on:		
- non Guaranteed Minimum Pensions	2.0% pa	2.4% pa
- post 1988 Guaranteed Minimum Pensions	1.8% pa	2.0% pa
Pensionable pay increase	3.5% pa	3.9% pa
<b>Demographic Assumptions</b>		
Post-retirement mortality assumption (normal health) - base table	Standard SAPS S2P tables with scaling factors of 95% for men and 100% for women	SAPS normal tables with scaling factors of 105% for men and women
Post-retirement mortality assumption - future improvements	CMI 2014 core projections with long annual improvement rate of 1.5%	CMI 2012 core projections with long annual improvement rate of 1.5%
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 is assumed to surrender pension on retirement, so total cash received is 80% 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 2016.

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 2013 are provided for comparison purposes.

	Value as at 31 March 2016 £m	Value as at 31 March 2013 £m
Fair value of net assets	2,321	2,085
Actuarial present value of the promised retirement benefits	3,365	2,905
Surplus / -deficit in the Fund as measured for IAS26 purposes	-1,044	-820

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 2016 (% p.a.)	31 March 2013 (% p.a.)
Discount rate	3.4	4.4
RPI Inflation	2.9	3.4
CPI Inflation	1.8	2.4
Rate of increase to pensions in payment *	1.8	2.4
Rate of increase to deferred pensions *	1.8	2.4
Rate of general increase in salaries **	3.3	3.9

\* 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. This statement has been adopted by the Pension Fund Committee and has been published 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 2016/17.

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 Pension Fund's liabilities.

## 25. Statement of Investment Principles

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pension Fund has prepared and reviewed a written statement of its investment policy. The Investment Strategy Statement sets out the principles for investing Fund monies. The document was reviewed by the Pension Fund Committee during 2016/17 and can be found on the Council's website at [durham.gov.uk](http://durham.gov.uk).

## Annual Governance Statement 2016/17

### INTRODUCTION

1. This statement 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 (AGS). It explains how the Council's arrangements for the governance of its affairs complied with its Local Code of Corporate Governance for the year ended 31 March 2017.

### CONTEXT

2. To provide context for this statement, summarised information relating to the constitution, structure, budget and services provided by Durham County Council, along with key statistical information about County Durham can be found on the [About Us](#) page on the Council's website.

### SCOPE OF RESPONSIBILITY

3. 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.
4. The Accounts and Audit (England) Regulations 2015 require the Council to prepare an AGS, 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.
5. 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 and performance.
6. In January 2017, 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".

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## THE PURPOSE OF THE GOVERNANCE FRAMEWORK

7. The governance framework comprises the systems, processes, 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 sustainable economic, social and environmental benefits for the people of County Durham.
8. 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 occurring and the impact should they occur, and to manage them efficiently, effectively and economically.
9. The governance framework has been in place across the Council for the year ended 31 March 2017 and up to the date of approval of the Statement of Accounts.

## THE GOVERNANCE FRAMEWORK

10. The key elements of 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 seven core principles of the CIPFA/ SOLACE Framework.
11. 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 March 2017.
12. 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](#).

13. 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 2016/17.

## REVIEW OF EFFECTIVENESS

14. 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.
15. 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
16. 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 AGS to demonstrate how far the Council complies with the principles of good governance and recommending improvements.
  - Internal Audit provides independent assurance on the effectiveness of the corporate governance framework;
  - External Audit provides an independent opinion on whether the AGS is materially accurate.
17. The review was also informed by a statement provided by each Corporate Director 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.

18. The Chief Internal Auditor and Corporate Fraud Manager provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which was incorporated in the Annual Internal Audit Report to the Audit Committee in June 2017. This opinion is based on audit reviews undertaken during the year which found all systems reviewed to give substantial or moderate assurance, except in 22 cases where limited assurance was reported. In the main, these issues related to specific areas and did not reflect weaknesses in the underlying governance arrangements. However, the procedure for approving payments to agency workers across the Council is disclosed as an area requiring improvement. Whilst it is understood that the necessary changes were implemented in the last quarter of 2016/17, it is essential that these are closely monitored across the coming year to ensure they are effective.
  
19. Aligned to the seven principles of good governance, a detailed account of how the Council's governance arrangements have operated during 2016/17 is included in **appendix A**. An update on improvements identified in the 2015/16 is included in **appendix B**.

## **CONCLUSION**

20. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2016/17 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 five actions as part of ongoing improvements to further strengthen governance arrangements in 2017/18. These are shown in **appendix C**.

## **APPROVAL OF ANNUAL GOVERNANCE STATEMENT**

Signed:

Simon Henig  
Leader of Durham County Council

Terry Collins  
Chief Executive

John Hewitt  
Corporate Director, Resources

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## **APPENDIX A: Governance Arrangements during 2016/17**

Aligned to the seven principles of good governance, the following paragraphs provide a detailed account of how the Council's governance arrangements have operated during 2016/17.

### **Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

#### **Behaving with integrity**

1. The expected standards of behaviour for members and employees are detailed in codes of conduct in the Council [Constitution](#), which 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. They are communicated at induction and re-iterated regularly during appraisals and in news bulletins.
2. 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. 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. The register of gifts, interests and hospitality for members is available online. Staff declarations are maintained and monitored by their Head of Service.
3. The key mechanism provided for employees, 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. An updated [Counter Fraud & Corruption Strategy and Fraud Response Plan](#) were approved by Audit Committee in February 2016. The Corporate Fraud Team maintains robust counter fraud arrangements and piloted a joint approach to fraud investigation with Durham Constabulary to improve the understanding of the risks of serious and organised crime.

#### **Demonstrating strong commitment to ethical values**

4. 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. The annual report of the Standards Committee was presented to Council in September 2016.

5. The Council's Codes of Conduct included in the [Constitution](#) also apply to its partnership working, and all contracts contain clauses requiring providers to have appropriate procedures in place to prevent unlawful discrimination in employment.

### **Respecting the rule of law**

6. In February 2017, the Council approved with immediate effect that the Chief Executive Officer (the head of paid service) and the Corporate Director Resources undertake the roles of Returning Officer and Deputy Returning Officer respectively. The Council also approved that that the recruitment of the Head of Legal and Democratic Services, on both an interim and subsequent permanent basis, be delegated to the CEO and the Corporate Director Resources, in consultation with the Leader of the Council.
7. To strengthen the arrangements for meeting its duty of care to service users and the public, the Council has instructed officers to devise a policy framework on Disclosure and Barring Service checks for members and present this to the Constitution Working Group.
8. As required by law, the Council has established and maintains an independent remuneration panel to provide advice on allowance schemes and the amounts to be paid to members.

## **Principle B: Ensuring openness and comprehensive stakeholder engagement**

### **Openness**

9. A climate of openness has been encouraged by the Council Leader who holds regular Cabinet meetings at various locations throughout County Durham. A notice of key decisions covering a rolling period of four months is published on the Council's website, and decisions made by the Executive are published within two days of the respective meeting.

### **Engaging comprehensively with institutional stakeholders**

10. 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. Through its

partnership governance framework, the Council seeks assurance that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority, and that there is clarity about the legal status of the partnership. Efforts are made to ensure that representatives and organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.

11. The Leader of the Council is the chair of the County Durham Partnership, which is the strategic partnership covering most partnerships in the County. Through the Transformation Programme, the Council continues to engage in the North East Local Enterprise Partnership and Combined Authority, taking a regional perspective and seeking to work across broader partnerships to secure investment. Under the same programme, a review of partnerships has commenced, with the aim of moving this aspect of working from good to great through efficiencies, sharing resources and seeking to ensure that the county has a louder, stronger voice.
12. In support of the Voluntary and Community Sector (VCS), the Better Together Forum, which is chaired by the VCS representative on the County Durham Partnership Board, brings together senior representatives of larger or specialist VCS organisations with a countywide remit to share best practice and look for new opportunities to collaborate.
13. A Chief Officer Group continues to provide 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. The Durham Humanitarian Support Partnership, now in its second year, has given support and positive experiences to families welcomed under the Syrian Vulnerable Persons Resettlement Scheme.
14. Visit County Durham, which receives funding from the Council, launched the Durham Place of Light campaign. This place brand and marketing strategy aims to change perceptions of the county around economic success under four main themes: Lighting up days and nights; Lighting up the past; Illuminating the future and Shining spirits. Further information is online at [www.durhamplaceoflight.com](http://www.durhamplaceoflight.com).
15. Efforts are being made through collaboration on the two NHS Sustainability and Transformation Plans (STP), which were presented to Adults, Wellbeing and Health Overview and Scrutiny Committee in March 2017, to ensure that the benefits of health and social care integration are maximised for County Durham residents. The STPs, which form part of the five year plan for the health service, aim to bring organisations together to develop a shared plan for better health and social care.
16. The Council has helped further develop the North East Highways Collaborative Alliance, a forum for all 12 north east councils, to facilitate shared services, joint procurement, supply chain optimisation and training.

## **Engaging with individual citizens and service users effectively**

17. 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. Attendance by the public at Council meetings and the protocols for asking questions are contained in the [Constitution](#).
18. The new Transformation Programme was informed by consultation with members, employees, trade unions and focus groups. 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 200 people, including service users, patients, carers, representatives from the voluntary and community sector, NHS and local authority partners. The event gave people an opportunity to provide their views on how services should be developed. The Council also consulted with the public and stakeholders as part of the Medium Term Financial Plan (MTFP) development, with presentations and roadshows at various venues, including supermarkets, to engage with as broad a range of people as possible.
19. The Council uses various channels of communication and feedback mechanisms to reach out to and meet the needs of its communities. Fourteen [Area Action Partnerships \(AAPs\)](#) are fully engaged with the community in identifying and addressing local priorities, and utilising locality budgets to drive improvements to the local area. Cabinet-approved masterplan updates for twelve localities were presented to the respective AAP to enable discussion and feedback on proposals. Faith groups also play an important role in health and wellbeing and contribute to flourishing and resilient communities, while inter faith engagement continues through the County Durham Faiths Network.

## **Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits**

### **Defining outcomes**

20. 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 2016 - 2019](#);
- 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 2016 - 2019](#) and the [Police, Crime and Victims' Plan 2016-21](#).

Apart from the Regeneration Statement, each of the above documents was refreshed during 2016/17.

21. The Council has responsibility for public health, which is overseen by the Health and Wellbeing Board, a Committee of the Council.
22. As part of the Transformation Programme, a review of the corporate planning process is underway to ensure that plans drive activity in the most cost-effective way. As agreed by members in July 2016, this will include a review of the Council Plan, led by the Director of Transformation and Partnerships. In the meantime the existing three year Council Plan will roll forward until a new corporate planning framework is agreed.

### **Sustainable economic, social and environmental benefits**

23. The Overview and Scrutiny Management Board, supported by its six committees, makes 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 the County Durham Plan, Local Transport Plan and preventative mental health services review and commissioning.
24. 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, including:-
  - Significant investment in line with the Council’s highest priority of regeneration in order to protect existing jobs and create new jobs;

- Investing in our town centres, industrial estates and infrastructure including new transport schemes and maintenance of our highways and pavements;
  - Continued support to protect working age households in receipt of low incomes through the continuation of the Council Tax Reduction Scheme;
  - Ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people; and
  - Continued work with community groups through the 'Durham Ask' initiative to transfer council assets so that they can be sustainable into the future.
25. The values of the Council are further promoted in the [Equality Policy](#), which 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. A mobile-friendly website, [Locate](#), provides an improved directory of vital care and support services, replacing the Durham Information Guide. There is a text messaging facility, enabled by the new customer relationship management system, for customer services enquiries from customers unable to use our other contact channels.

## **Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes**

### **Determining and planning interventions**

26. The Council ensures that decision makers receive objective and rigorous analysis of a variety of options, indicating how intended outcomes would be achieved and highlighting associated risks, in order to secure best value regardless of the service delivery method. In this respect, improvements have been made to financial modelling and financial advice supporting decisions relating to asset optimisation, particularly in respect of major projects including the strategic employment site and office accommodation programme. Decision-making is also supported by feedback from citizens and service users, for example:-
- The MTFP Plan strategy has been shaped by residents' and stakeholders' views with a high level analysis of the equalities impact.
  - The revised Strategy for Youth Support in County Durham was informed by a 12 week public consultation involving all stakeholders, including the views of young people expressed through the 2015 County Durham Children and Young People's Student Voice Survey for Secondary Schools.
27. The Council operates robust decision-making mechanisms that include an assessment of associated risks and these have enabled outcomes to be achieved in various, innovative ways. For example, by investing in the digital banking company Atom Bank, in response to the growing number of people who use their mobile phone for banking, the region's financial jobs market was boosted, creating around 160 jobs at Aykley Heads. Chapter Homes was created in 2015 to improve the county's

housing offer by providing well-designed, quality homes that meet the needs of people wanting to buy or rent in County Durham. Additional benefits include creating local jobs, using local contractors and boosting the local economy.

28. 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. Council business is still led by the [Sustainable Community Strategy \(SCS\) 2014 - 2030](#) but the [Council Plan 2016-2019 and Service Plans](#) will be reviewed after the local elections in May 2017 as a new vision for the County.
  
29. The [Medium Term Financial Plan 2017 - 2020 \(MTFP\)](#) was approved by the Council in February 2017. 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 seven years up to the end of March 2017, a sum of £186m of savings has been delivered. The Council's strategy for the last five years has been to protect front line services as far as possible and the 2017/18 proposals are in line with this strategy. To ensure that front line services can be protected wherever possible, the Transformation Programme seeks to ensure that all options are explored. 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.
  
30. 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.

### **Optimising achievement of intended outcomes**

31. The new Transformation Programme will evolve over the next three to five years and includes a number of projects that make up a comprehensive change programme for the Council with the following core objectives:-

- Redesign our services to better meet customers' needs at reduced cost to the Council;
- Help communities become more self-reliant and resilient;
- Move our partnership working from good to great;
- Become renowned for our skilled and flexible workforce and our employee engagement.

The programme reports to a new Transformation Board, consisting of Cabinet members and the Corporate Management Team, and chaired by the Leader of the Council. It is co-ordinated through a Steering group made up of senior officers leading on aspects of the programme and chaired by the Director of Transformation.

### **Principle E: Developing the Council's capacity, including the capability of its leadership and the individuals within it**

#### **Developing the Council's capacity**

32. 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 implemented to support the delivery of the strategy and its implementation and benefits will be monitored by Cabinet. The new system continues to build on progress made to provide further automated transactions and enhanced service information, giving customers choices in the way they contact the Council.
33. Inspire, which is part of our Transformation Programme, seeks to use modern ways of working to improve the services we provide our customers, making the most of our buildings, and providing the best environment and technology for employees. As well as plans to replace County Hall, four strategic sites will be refurbished to help employees share desks, work smarter and more flexibly.
34. The Council's Corporate Asset Management Plan (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. 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. The Council is now experienced in asset transfer, having successfully assigned a number of leisure centres, a golf course and children's centres to community organisations.
35. The Chief Executive implemented a revised chief officer structure to reflect the challenges faced by the Council whilst building on existing organisational strengths

and delivering savings through more efficient ways of working. The service grouping for Adult and Health Services and Children and Young People's Services were split, and new structures developed under respective, newly-appointed corporate directors. The service groupings for Neighbourhood Services and Regeneration and Economic Development were merged to form Regeneration and Local Services. A new Transformation and Partnership Service will oversee delivery of the Transformation Programme to support the Council in becoming a leaner organisation, characterised by modern business practices, sustainable service delivery, excellence in customer service and a skilled and motivated workforce.

36. The Council maintains an effective workforce plan, through the Organisational Development Strategy, to enhance the strategic allocation of resources. Further work in this area will be undertaken as part of the Transformation Programme.
37. 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 and commercial benchmarking clubs to inform programmes of VFM reviews and savings options in various service areas. External Audit will review VFM as part of the audit of the 2016/17 Statement of Accounts.

### **Developing the capability of the Council's leadership and other individuals**

38. 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 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.
39. The [Constitution](#) also 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. 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.

40. The Council delegated authority for the discharge of County Council functions in the period between the County Council elections and the reconstitution of Council bodies.
41. The Council is committed to continually reviewing the development needs of members and officers and continues to be a member of the North East Public Service Academy, which promotes excellence in learning across the public sector.
42. Our approach to member development is outlined in the Member Learning and Development Strategy, and the Member Learning and Development Policy. A new elected member induction programme covering the constitution, decision making, scrutiny and key services is being developed for the new intake following the 2017 elections. A review of corporate management development was undertaken and sought to meet organisational priorities and the changing needs of the organisation linked to corporate values and the office accommodation programme.
43. The Council continues to encourage public participation through various actions. Support to the Advice in County Durham Partnership was enhanced with regular training and newsletters in addition to established network meetings. Area action partnerships continue to carry out initiatives that support all parts of their communities, for example:-
- East Durham Rural Corridor AAP's 'Out of the Comfort Zone' project is focussed on targeting isolated vulnerable people who do not participate in community activity;
  - Volunteers are given training and support to assist in their roles, help them to move into employment and bring about significant changes, which benefit themselves and their communities;
  - Through Durham Community Action, funded through the Transformation Challenge Award funding, a volunteer passport has been developed that records the individual's journey and training received.
44. The leadership's effectiveness is monitored and subject to challenge through various mechanisms enshrined in the Constitution, such as the overview and scrutiny arrangements, and questioning by members and the public.
45. Employees' needs, in terms of training, development, health and wellbeing, are delivered through the Organisational Development Strategy and the Health, Safety and Wellbeing Strategy. The Council continues to support employees through the change process with, for example, Jobcentre Plus information sessions and confidential counselling services through the Employee Assistance Programme.

46. Employee engagement continues through employee roadshows and focus groups, which will be used to generate ideas and support decision making across the Council. New developments in 2017/18 include the chief executive's video blog and focus groups for employees who share protected characteristics.
47. The annual employee survey was expanded, with the endorsement of the trade unions, to include things that may affect staff health and how well they feel at work. The results will be used to improve the support offered to employees as well as management, policies and working practices. These issues are particularly important during changes to the way the Council works.

## **Principle F: Managing risks and performance through robust internal control and strong public financial management**

### **Managing risk and performance**

48. As required by the Risk Management Policy and Strategy, which defines key roles and responsibilities and is reviewed annually, risk management continues to be embedded in decision making and key business processes. The Audit Committee seeks assurance, through quarterly update reports, that the Council's strategic risks are being effectively managed.
49. The County Durham Partnership, which is the strategic partnership for the County, is made up of key public, private and voluntary sector partners, driven forward by thematic partnerships set around the five priority themes. Its role includes monitoring performance towards implementing the SCS, and considering strategically how plans align and where efficiencies and value can be maximised through integration, shared services and joint commissioning.
50. 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 and through performance clinics between the Chief Executive, individual Corporate Directors and the the Director of Transformation and Partnerships during the year. A number of key in-depth evidence based reviews have also been carried out by Overview and Scrutiny Committees including attendance management and the development and implementation of the customer relationship management system.
51. To manage and measure service improvement, the Council has a locally led planning and performance management framework that links to the SCS and the [Council Plan](#). To ensure that attention remains focused on Council priorities, a review of these arrangements was initiated under the Transformation Programme. This seeks to reduce the number and size of plans and strategies and develop an approach to

performance management that answers key performance questions rather than rely on performance indicators. Quarterly reports will be more concise, using a dashboard style with shorter narrative, and attention will move towards analysing and developing insights from the performance data.

52. The Quality Improvement Board is chaired by the Corporate Director of Children and Young People's Services and meets monthly to provide strategic oversight and lead improvements in quality. The Board oversees the implementation of the Ofsted improvement plan and receives reports on compliance with the tasks in the improvement action plan.
53. 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). An update on activity from the Panel is presented to each meeting of the Council's Safer and Stronger Communities Overview and Scrutiny Committee.
54. The Council endeavours to make the right decisions for the benefit of its stakeholders. The County Durham Partnership Forum meeting in October focused on how children and young people are actively engaged in the work of all partners and AAPs, particularly in decision making and having their thoughts and ideas heard and, more importantly, put into action. This was inspired by the annual Children's Commissioner's Takeover Challenge, an England-wide event where organisations are encouraged to involve children and young people in decision making. The feedback will be used by the Children and Families Partnership to ensure that the initiative is countywide and all year round and adopted by other partners.
55. The Council's decision-making processes are also supported by a Risk Management Strategy and Policy and an Audit Committee with responsibility for monitoring and reviewing the risk, control and governance processes and associated assurance processes. The Council also ensures 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.

### **Robust internal control**

56. Risk management and internal control are acknowledged as integral parts of the Council's performance management framework and crucial to the achievement of objectives. To reflect this, internal audit continuously reviews risks with reference to strategic objectives, and a register of strategic risks is compiled linking each item to the relevant strategic objective.

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## Managing data

57. The Council's arrangements for maintaining good-quality information include:-
- regular meetings between the Senior Information Risk Officer, the Head of Planning and Performance, Head of ICT Services and the Council's designated Caldicott Guardian;
  - an online information security module, including a section on the Data Protection Act, which has been rolled out to all staff; and
  - data protection arrangements regarding data sharing through standardised subject access requests, privacy impact assessments and a rolling programme of audits.

## Strong public financial management

58. 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 (2016). 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.

## Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

### Implementing good practice in transparency

59. The Council has an open data policy and has been publishing open datasets through the [Data Mill North](#) website. In response to the Local Government Transparency Code, a transparency and accountability web page was set up and the Council's Asset Register is now publicly available under the on the Council's website. As required by law, the sum paid to each county councillor is also published.
60. 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.

### Implementing good practices in reporting

61. The Local Code of Corporate Governance was substantially amended to bring it in line with the CIPFA/SOLACE Delivering Good Governance in Local Government

Framework 2016. After consultation with the Improvement and Planning Group, it was approved by Audit Committee and Full Council.

62. The Statement of Accounts 2015/16 was approved by the Audit Committee in September 2016, taking account of the views of the External Auditor, in line with the Accounts and Audit Regulations 2015. External Audit also provides an independent opinion on whether the Annual Governance Statement is materially accurate. 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.

### **Assurance and effective accountability**

63. The Council strives to produce financial statements on a consistent and timely basis, in accordance with Financial Reporting Standards, in a way that enables comparison with other, similar organisations. As part of continuous improvements in the financial accounting process, the Council has commenced an early closure trial for the 2016/17 accounts.
64. The Chief Internal Auditor and Corporate Fraud Manager reports to the Council's Corporate Director, Resources, but in order to ensure independence, has direct access to the Chief Executive, and the Chair of the Audit Committee. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit Committee, has been undertaken and was reported to the Audit Committee in July 2016. This review concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor and Corporate Fraud Manager to be relied upon.
65. An Audit Charter, which was approved in line with Public Sector Internal Audit Standards (PSIAS), is in place. The PSIAS were revised to take effect in April 2017, with more emphasis being placed on consultancy activity. Whilst assurance remains critical, it is important that the service can deliver a balanced approach and continually add value to the organisation.
66. The Council approved proposals of the Corporate Director of Resources regarding appointing the external auditor to the Council for the 2018/19 accounts and beyond.
67. The Council won 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.

68. In February 2016, an inspection of children's services and a review of the Local Safeguarding Children's Board were undertaken by Ofsted under their single inspection framework. The outcome was the Children's Service received a judgement of 'requires improvement'. A Quality Improvement Board (QIB), which had already been established to oversee quality assurance developments in Children's Services, agreed an improvement plan and this was submitted to Ofsted in September 2016. The Senior Inspector and Lead Inspector were assured by the content of the plan and fed back that it was a comprehensive and focused document with clear actions and timescales. Regular reports have been submitted during the year to Corporate Management Team, Cabinet, Children and Young People's Overview and Scrutiny Committee, as well as the Health and Wellbeing Board, Children and Families Partnership and Local Safeguarding Children's Board, providing progress updates on the work of the QIB and the status of the tasks in the improvement plan.
69. 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:-
- The Care Quality Commission, who reviewed the following service areas: County Durham Care and Support (Extra Care, Short Break/Shared Lives and Supported Housing); Special Education Needs Disabilities.
  - Her Majesty's Inspectorate who reviewed the following service areas: Probation - County Durham Youth Offending Service.
  - Ofsted, who reviewed the following service areas: Children's Centres; Children's Homes; Schools; Special Education Needs Disabilities; Targeted Local Area Inspections.
  - UK Border Agency Inspection, who reviewed recruitment and selection function.
  - A peer review of planning policy systems.
70. Health and safety reporting arrangements were improved with more accurate incident reporting in relation to external contractors.

## APPENDIX B: Update on improvements identified in the 2015/16 Annual Governance Statement

Following the production of the Annual Governance Statement for 2015/16, two improvement actions were identified for 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
<p><u>Update:-</u> Following consultation on the Issues and Options stage County Durham Plan in Summer 2016, the intention was to develop a preferred options plan for consultation. This process was 'paused' as the government signalled the imminent release of the Housing White Paper and what was considered to be fundamental changes to the plan making process. The Housing White Paper was published on the 7 February 2017 and also signals an intention for further consultations, including on the methodology for developing a housing requirement associated with a local plan. It is expected that this will lead to a revised National Planning Policy Framework towards the end of the year. Comments to the Housing White Paper were required by the 2 May 2017.</p>		
2	Implement a new chief officer structure to reflect the challenges faced by the Council whilst building on existing organisational strengths	Chief Executive Officer
<p><u>Update:-</u> This action is complete. The revised chief officer structure reflects the challenges faced by the Council whilst building on existing organisational strengths and delivering savings through more efficient ways of working. The service grouping for Adult and Health Services and Children and Young People's Services were split, and new structures developed under respective, newly-appointed corporate directors. The service groupings for Neighbourhood Services and Regeneration and Economic Development were merged to form Regeneration and Local Services. The new Transformation and Partnership Service will oversee delivery of the Transformation Programme, which will support the Council in becoming a leaner organisation, characterised by modern business practices, sustainable service delivery, excellence in customer service and a skilled and motivated workforce.</p>		

**APPENDIX C: Proposed Governance Improvements required during 2017/18**

As a result of the review of governance arrangements, and the work of both internal and external audit, five improvement actions have been identified to further strengthen governance arrangements in 2017/18. These are shown in the table below.

<b>No.</b>	<b>Actions to be taken (cross-reference)</b>	<b>Lead Officer</b>
1	Assurance on the delivery of the Children's Services improvement plan will be provided through regular progress updates on the work of the Quality Improvement Board and the status of the tasks. Reports will be submitted to Corporate Management Team, Cabinet, the Local Safeguarding Children's Board, and relevant Council Committees and partners. (Appendix A, paragraphs 52 and 68)	Corporate Director, Children and Young People Services
2	Implement an action plan to enable approval of the County Durham Plan within the statutory requirements and the anticipated National Planning Policy Framework. (Appendix B, action 1)	Corporate Director, Regeneration and Local Services
3	Implement revised governance monitoring arrangements for companies in which the Council has a legal interest to ensure that they are fit for purpose. (Appendix A, paragraph 27)	Corporate Director, Resources
4	Implement arrangements to ensure that the Council complies with the General Data Protection Regulations 2018. (Appendix A, paragraph 57)	Director, Transformation and Partnerships
5	Monitor the arrangements for payments to agency workers across the Council to ensure that they are effective. (Paragraph 18)	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.

### **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 or Losses**

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). 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. Also known as 'Third Party Payments'.

**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 Council'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 Council. This figure is then used in the calculation of the Council's Minimum Revenue Provision.

**Capital Grants Unapplied**

Grants that have been recognised as income in the Comprehensive Income and Expenditure Statement (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.

**CYPS**

Children and Young People's 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 Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue Service.

**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 Statement (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 and 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.

**Curtailment**

Curtailments 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 non-current 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 Council 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.

### **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 Council. 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 originating 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).

### **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 non-current 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 Council 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 non-current 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.

### **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 that the Council must charge to the income and expenditure account to provide for the repayment of debt. 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 Council 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 Council 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 the Council but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the Council. 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 Council 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 Council's Collection Fund. There are two major preceptors in Durham County Council's Collection Fund: Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue Service.

### **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 local 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.

**REAL**

Regeneration and Local Services.

**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 non-current 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 Council 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.

### **T&P**

Transformation and Partnerships.

**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.

**Third Party Payments**

See 'Agency Services'.

**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 Payments**

The cost of payments to individuals for which no goods or services are received in return by the Council, for example Adult Social Care direct payments or Housing Benefit payments.

**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.

**Audit Committee**

**28 June 2017**



**Internal Audit Strategy, Charter and Plan for 2017/2018**

**Report of Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager**

**Purpose of the Report**

- 1 To submit the revised Internal Audit Strategy, Charter and Plan for 2017/2018 which are attached as Appendices 2, 3 and 4, for approval.

**Background**

- 2 The Public Sector Internal Audit Standards (PSIAS), that came into effect from April 2013, define internal audit as,
 

‘an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.’
- 3 These standards are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 4 The PSIAS have been revised from 1 April 2017 in line with new and revised IPPF Global standards and consequently amendments have been made to incorporate the additional public sector requirements and interpretations.
- 5 The Internal Audit Charter at Appendix 3 has therefore been revised to accommodate the changes made to the PSIAS.
- 6 The Internal Audit Strategy which has informed the development of the 2017/2018 audit plan has also been reviewed and is included at Appendix 2.

## Internal Audit Charter

- 7 The Internal Audit Charter defines the Internal Audit Service's purpose, authority and responsibility. It establishes Internal Audit's position within the organisation, including the nature of the Chief Internal Auditor and Corporate Fraud Manager's functional reporting relationship with the Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the Internal Audit Charter resides with the Audit Committee.
- 8 The main points and changes to the PSIAS and subsequently the Internal Audit Charter are summarised in paragraphs 9 through 12 below.
- 9 There is now a requirement that the Audit Charter details the Mission of Internal Audit. The Mission should articulate what Internal Audit aspires to accomplish within the Council. The Mission is set out in the Internal Audit Strategy and Charter - 'To enhance and protect Durham County Council's organisational values by providing risk-based and objective assurance, advice and insight'
- 10 A set of Core Principles are set out for the service, taken as a whole these articulate internal audit effectiveness. In order to be considered effective all of the principles should be present and operating: -
  - ) Demonstrates integrity.
  - ) Demonstrates competence and due professional care.
  - ) Is objective and free from undue influence (independent)
  - ) Aligns with the strategies, objectives and risks of the organisation.
  - ) Is appropriately positioned and adequately resourced.
  - ) Communicates effectively.
  - ) Provides risk-based assurance.
  - ) Is insightful, proactive and future-focused.
  - ) Promotes organisational improvement.
- 11 The other significant changes are:
  - ) Emphasis on proper safeguards being in place where the Chief Audit Executive has roles beyond Internal Audit.
  - ) The standards now explicitly refer to the service considering 'trends and emerging issues that could impact the organisation'.
  - ) Specifically references that the service should be 'future focussed and continually add value to the organisation'.
  - ) Inclusion of a new interpretation relating to reliance on other assurance providers.

## Preparation of 2017 / 2018 Audit Plan

- 12 The Emergent Internal Audit Plan was presented at the Audit Committee's meeting on 24 February 2017. As discussed in that paper, the plan has now had further refinement and discussions have taken place with Corporate Management Team prior to presenting the final version to the Committee.
- 13 In consultation with Service Groupings' Senior Management Teams, Heads of Service, Director of Transformation and Partnerships and Corporate Directors the Internal Audit plan has been reviewed and revised to reflect changes in structures, changes in key service activities and management's preference for the timing of reviews.
- 14 The Audit Plan has been prepared for the twelve months from 1 April 2017 to 31 March 2018.
- 15 The proposed Audit Plan for 2017/2018, attached at Appendix 4, includes provision for:
  - ) Work started in 2016/2017 which was not complete by 31 March 2017.
  - ) Work that was approved in the 2016/2017 audit plan but has been deferred and carried forward into 2017/2018 as previously agreed.
  - ) Planned assurance work scheduled from the 5 year strategic audit plan.
  - ) Annual due diligence on key systems and compliance with key corporate policies.
  - ) Service requests identified through the consultation process with senior management.
  - ) Grant certification work.
  - ) Work by the Corporate Fraud Team to complete proactive counter fraud reviews aimed at detecting and preventing fraud in high risk areas.
  - ) Corporate provision for reactive advice and consultancy work and new emerging risks, including any reactive fraud investigations and irregularities.
  - ) Corporate provision for planning, quality assurance and reporting.
  - ) Follow up of agreed audit recommendations.
- 16 The detailed scope of some audit reviews included in the plan are not yet finalised, however an initial outline scope of each audit has been prepared. These will be further developed as part of the planning and preparation stage of each individual assignment in accordance with the agreed audit strategy. This ensures that audit resources assigned to individual reviews are focused upon operational risks, controls and the assurance environment expected to be in place at the time reviews are actually carried out. This is particularly important due to the extent of change management across the Council.

- 17 Operational risks are those that arise directly from the core activities of delivering services and include:
- ) Financial Management Risks
  - ) Project Risks
  - ) Performance Management Risks
  - ) Partnership Risks
  - ) Human Resources Risks
  - ) IT and Information Governance Risks
  - ) Procurement and Contract Risks
  - ) Legal Risks
  - ) Service Specific Risks
- 18 In evaluating the management of these risks, Internal Audit aims to help the achievement of corporate priorities and objectives by providing assurance on:
- ) The adequacy of risk identification, assessment and mitigation – including the adequacy and effectiveness of the strategic risk management process.
  - ) The adequacy and application of controls to mitigate identified risk.
  - ) The adequacy and extent of compliance with the Council's corporate governance framework.
  - ) The extent of compliance with relevant legislation.
  - ) The extent to which the Council's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money.
  - ) The quality and integrity of financial and other management information utilised within the Council.
- 19 In accordance with the Internal Audit Strategy, in consultation with Heads of Service and nominated service manager or key contact, the Service will prepare an agreed Terms of Reference prior to the start of each planned audit and where applicable a Control Risk Assessment (CRA) so as to:
- ) Inform the scope for audit
  - ) Identify and agree key service/system operational objectives
  - ) Assess and agree key risks
  - ) Identify and agree expected/existing key controls
  - ) Identify other key sources of assurance and what assurance they provide that risks are effectively managed
  - ) Identify key stakeholders/contacts and circulation list for report
  - ) Provide a mechanism for ongoing self-assessment post audit
- 20 The Service will make all reasonable endeavours to schedule audit work within the timing preference expressed by services, but inevitably this may not always be possible due to the practicalities of scheduling work across all service groupings to match estimated audit resources available.

- 21 Given the continuous extent of the transformation and change agenda with which the Council is faced at this time, it is particularly important that the annual audit plan is flexible and allows for the service to be pro-active in supporting management in the consideration of control issues relating to new or emerging risks. As such specific time has been allocated to support the Transformation Programme and a contingency provision is also included to respond to new and emerging risks and changes to the strategic audit plan to reflect changes in service priorities and/or risks.
- 22 Service requests are actively encouraged and will be considered in relation to the risk and the type of audit work required e.g. control design and/or compliance assurance, grant certification work, advice and consultancy etc. and whether or not the service has the necessary skills and resources to undertake the work requested.
- 23 It is always the preference for Internal Audit to be involved in any changes to systems to advise on the appropriate controls before they are implemented rather than potentially auditing a system in retrospect that then requires any improvements.
- 24 Any proposals to amend approved plans will be discussed and agreed with Corporate Directors and any significant changes will be reported to the Audit Committee for approval.

#### **Delivery of the 2017 / 2018 Audit Plan**

- 25 The productive audit days required to deliver the proposed audit plan, which includes provision for a contingency provision for any new and emerging risks, has been estimated to be 4,301 days.

- 26 The audit days available to deliver the Council's Internal Audit Plan for 2017/18, based on actual staff in post is illustrated in the following table:

Audit Days required to complete and close audit reports relating to 2016/17	254
<b><u>Audit Plan 2017 / 2018</u></b>	
Adult and Health Services (AHS)	139
Children and Young People's Service (CYPS)	223
Regeneration and Local Services (REAL)	309
Resources (RES)	701
Transformation and Partnerships (TAP)	117
Durham Police, Crime & Victims Commissioner / Durham Constabulary	160
Durham and Darlington Fire and Rescue Authority	72
Durham County Council Pension Fund	45
Peterlee Town Council	23
Durham City Charter	6
Durham City Crematorium	19
Mountsett Crematorium – Joint committee	19
Schools (Service Level Agreements)	369
Productive Time – not directly allocable to services e.g. Audit Planning, Quality Assurance Reviews, Performance Management, Fraud Investigation (Pro-active and Reactive), Service Improvement and Follow Up of Recommendations etc.	1,845
<b>TOTAL DAYS REQUIRED</b>	<b>4,301</b>

- 27 Monitoring of the plan will continue during the year through quarterly progress reporting to provide feedback on delivery and to discuss any new or emerging risks.

### **Recommendations**

- 28 It is recommended that members:
- ) Approve the Internal Audit Strategy in Appendix 2.
  - ) Approve the revised Internal Audit Charter in Appendix 3
  - ) Approve the proposed Internal Audit Plan for 2017/2018, as detailed in Appendix 4.

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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** – 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**– All Corporate Directors, the Director of Transformation and Partnerships and Heads of Service have been consulted.

**Procurement**– None

**Disability Issues**– None

**Legal Implications**– Compliance with the Accounts and Audit Regulations 2015 and revised Public Sector Internal Audit Standards (PSIAS) 2017.

## DURHAM COUNTY COUNCIL



### Internal Audit Strategy

#### 1. Introduction

- 1.1 The Internal Audit Strategy for 2017/2018 focuses on the delivery of the assurance opinion and the Internal Audit plan to support this opinion. This strategy reflects Internal Audit's contribution to the Council's current 'Altogether' agenda and fully supports the Council's ambitions as set out in the Sustainable Community Strategy. The Internal Audit Strategy incorporates best practice from the Chartered Institute of Public Finance and Accountancy (CIPFA) and Chartered Institute of Internal Audit (CIIA).
- 1.2 The requirement for an Internal Audit function for local authorities is within section 151 of the Local Government Act 1972 and authority has been delegated to the Corporate Director, Resources to fulfil this function. Part 2, Regulation 5 of the Accounts and Audit Regulations 2015 requires that "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."
- 1.3 The mission of the Internal Audit service is 'to enhance and protect Durham County Council's organisational values by providing risk-based and objective assurance, advice and insight'.
- 1.4 The assurance is provided through three elements:
  - ) Internal Control;
  - ) Governance and
  - ) Risk Management
- 1.5 The Terms of Reference of Internal Audit are contained within the Audit Charter. The measures in place to deliver these are set out below.

#### 2. Strategy Statements

- 2.1 There are overarching strategies to support the delivery of all of our services, these include:
- 2.2 We aim to deliver work of the highest quality, to the appropriate audience and at the most appropriate time.

- 2.3 We support and promote the Council's vision, ambitions, values and objectives in all of the work Internal Audit carries out. It is our ambition to ensure that the delivery of our service is influenced by and positively contributes to these developments together with the growing need for wider ranging assurances in all aspects of the Council's operations. We will also continue to consider and review the impact of organisational change on the Council's governance, internal controls and risks.
- 2.4 We will plan, organise and control the delivery of our service in line with professional standards (Public Sector Internal Audit Standards). We work to add value through providing reliable, objective assurance and insight on the effectiveness and efficiency of governance, risk management and internal control processes. We continually aim to challenge and inspire colleagues to improve.
- 2.5 We will create and communicate high quality information about the effective operation of management's control over risks and we will use our combined experience and knowledge to provide helpful and practical insight and recommendations, we know we can be a catalyst for improving the Council's effectiveness and efficiency based on analysis and assessments of data and business processes. The internal audit team has a comprehensive set of procedures and templates that are regularly reviewed and approved to ensure a consistent approach to our work. All audit work is reviewed to ensure it is evidenced based, independent, technically compliant, risk based, timely, has impact and is practical. We employ quality controls, quality monitoring and quality reviews of our work.
- 2.6 We identify the audit resources with the appropriate skill set to deliver the audit service, which meets the required professional standards. We are committed to integrity, accountability and high levels of customer care. We provide assistance with training and continuous professional development. The Council and the Internal Audit team subscribe to a number of professional support forums. The Chief Internal Auditor and Corporate Fraud Manager is chair of the County Chief Internal Auditor Network (CCAN), is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Group both North East and North West and the North East Heads of Internal Audit Group in order to utilise the peer support that these groups provide. We also have in place a Quality Assurance Improvement Plan (QAIP) as required by PSIAS.

2.7 We will strive to raise the profile of Internal Audit in a positive way at all times. The ways that we do this include:

- J Professional advice and support to Members, Corporate Directors, Heads of Service and all employees.
- J Delivery of our principal service including high quality audit reports (drafts and final) and Committee reports.
- J Issuing Client Satisfaction Questionnaires for all work that we undertake whilst analysing and understanding the responses and acting on the messages conveyed to us.
- J Maintaining good client relations and to this end:
  - o Attend all Service Grouping management teams on at least a quarterly basis.
  - o Provide time within the Internal Audit Plan for advice and consultancy with respect to internal controls for all of our clients.
  - o Detailed Terms of Reference are prepared for each audit based on close liaison with clients.
  - o Provide all Corporate Directors with quarterly and annual reports on the activity within their Service Groupings.
  - o Provide a training module on internal control, risk management and fraud awareness currently through the 'Durham Managers' programme.

2.8 We aim to support good value for money in all that we do. Our work is designed to help in the promotion of continuous performance and internal control improvement through the issue of reports containing relevant and valued recommendations and action plans. We support effective financial management, help prevent fraud and corruption and undertake investigations where it is felt appropriate to do so. The service also participates in benchmarking to measure our performance and value for money against peer organisations.

2.9 We plan, record and monitor the time spent on all audit activities to manage our staffing resources efficiently and economically.

### **3. Delivery of the Service**

3.1 The Chief Internal Auditor and Corporate Fraud Manager is responsible for the Internal Audit Service and delivering of the Audit Plan in accordance with the Terms of Reference detailed in the Audit Charter.

3.2 The Internal Audit Service will be delivered on the basis of a five year risk based Strategic Audit Plan which is approved annually by the Audit Committee and is based on risks identified by the Chief Internal Auditor and Corporate Fraud Manager in consultation with Service Groupings. The Chief Internal Auditor and Corporate Fraud Manager maintains a continuous review of the risks and issues affecting the Council and thus the Audit Plan using the following:

- J Review of Council's priorities and objectives;
- J Continuous assessment of risk identified by the strategic risk register and senior managers;
- J Issues arising from changes in legislation;
- J The implications of external inspection reports.

3.3 The Audit Plan must balance the needs to:

- ) Provide assurance on the effectiveness of internal controls operating within the Council
- ) Adequately review the assurance provided by key financial systems for management and the external auditor to place reliance on.
- ) Allow for the Internal Audit Service to offer advice and guidance on control issues to the Council's managers
- ) Investigate all suspected or detected frauds or irregularities.
- ) Provide time to allow Internal Audit to carry out appropriate unplanned work requested by managers.

3.4 The Chief Internal Auditor and Corporate Fraud Manager will assess the services resource requirements and formulate the Internal Audit Plan. The staffing structure of Internal Audit comprises a mix of professional, accounting technician and trainee posts with a mix of specialisms to reflect the varied workload of the service. These resources will be met internally within the Council supplemented by appropriately qualified external resources should there be the requirement.

**4. Review of the Strategy**

4.1 The strategy will be reviewed annually by the Audit Committee alongside the Annual Internal Audit Plan and Internal Audit Charter.



# **INTERNAL AUDIT CHARTER**

**June 2017**

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# 1. Introduction

- 1.1 The purpose of this Charter is to establish the terms of reference for the Durham County Council Internal Audit Service and outline how the service will be delivered and developed through its Audit Strategy. It sets out the purpose, authority and responsibility of Internal Audit.

## 2. Statutory Basis

- 2.1 Internal Audit is a statutory service in the context of the Accounts and Audit Regulations (England) 2015, which state that:

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

- 2.2 The Public Sector Internal Audit Standards (PSIAS) and CIPFA’s Local Government Application Note (LGAN), which came into effect April 2013, constitute proper practices to satisfy the requirements for larger relevant local government bodies as set out in the Accounts and Audit Regulations 2015. The PSIAS were updated on 1 April 2017 and the charter has been updated to reflect these changes.
- 2.3 Section 151 of the Local Government Act 1972 states that every local authority should make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs (The Chief Financial Officer (CFO)). CIPFA has defined proper administration in that it should include, ‘compliance with the statutory requirements for accounts and internal audit’.
- 2.4 The CIPFA Statement on the Role of the Chief Financial Officer states that the CFO must:
- ) Ensure an effective internal audit function is resourced and maintained
  - ) Ensure that the authority has but in place effective arrangements for internal audit of the control environment
  - ) Support internal audit arrangements and
  - ) Ensure the audit committee receives the necessary advice and information so that both functions can operate effectively
- 2.4 This Internal Audit Charter recognises the mandatory nature of the PSIAS including the definition of Internal Auditing, the Mission of Internal Audit, the Code of Ethics and the Standards themselves.
- 2.5 As required by the PSIAS, this Charter defines the group or body determined to fulfil the roles and responsibilities of the ‘board ‘and ‘senior management’ for the purpose of internal audit activity, as referred to in the individual standards. These definitions are set out in Appendix C.

### **3. Definition**

- 3.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### **4. Mission**

- 4.1 The mission of the Internal Audit Service is 'to enhance and protect Durham County Council's organisational values by providing risk-based and objective assurance, advice and insight'.

### **5. Code of Ethics**

- 5.1 Internal Auditors in the UK public sector organisations must conform to the Code of Ethics (the Code) as set out in the PSIAS. The Code applies to both individuals and entities that provide internal auditing services.
- 5.2 The Code consists of 4 principles that are relevant to the profession and practice of internal auditing and set out the rules of conduct that describe behaviour norms expected of internal auditors to guide their ethical conduct. The 4 principles are integrity, objectivity, confidentiality and competency.
- 5.3 Internal auditors must also have regard to the Committee on Standards in Public Life, "Seven Principles of Public Life", those being:

- ) Selflessness
- ) Integrity
- ) Objectivity
- ) Accountability
- ) Openness
- ) Honesty
- ) Leadership

### **6. Strategic Aims**

- 6.1 The overall strategy supports the Council achieve its aims and objectives through the provision of a high quality internal audit service that gives management reasonable assurance on the effectiveness of the Council's internal control environment and acts as an agent for change by making recommendations for continual improvement.

- 6.2 The service aims to be flexible, pragmatic and to work in collaboration with management to suit organisational needs. Through a risk based approach to audit planning, the service will make a positive contribution to corporate governance arrangements and assist management in developing a framework for achieving objectives within acceptable levels of risk.

## 7. Objectives of Internal Audit

- 7.1 The service's primary objective is the provision of reasonable, not absolute, evidenced based assurance on the effectiveness of the whole of the Council's risk management, control and governance environment to the Corporate Management Team and the Audit Committee.
- 7.2 The provision of the annual assurance opinion will be in compliance with professional guidelines and in accordance with the Accounts and Audit regulations 2015. The annual opinion will be included within the Council's Annual Governance Statement that forms part of the Council's published annual Statement of Accounts.
- 7.3 To determine the audit opinion the internal audit service will review, appraise and report upon:
- ) The adequacy of risk identification, assessment and mitigation
  - ) The adequacy and application of controls to mitigate identified risk
  - ) The adequacy and extent of compliance with the Council's corporate governance framework
  - ) The extent of compliance with relevant legislation
  - ) The extent to which the organisation's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money
  - ) The quality and integrity of financial and other management information utilised within the organisation
- 7.4 When presenting the annual audit opinion the Chief Internal Auditor and Corporate Fraud Manager will:
- ) Disclose any qualification to that opinion, together with the reasons for that qualification
  - ) Present a summary of the audit work undertaken from which the opinion is derived, including reliance placed on the work of others
  - ) Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement
  - ) Compare the work actually undertaken to the work that was planned and summarise the performance of the internal audit service
  - ) Present a statement on conformance with the PSIAS and the results of a Quality Assurance and Improvement Programme (QAIP) required by the PSIAS.

7.5 Other objectives include:

- ) Supporting the Section 151 Officer (Chief Finance Officer) in discharging his statutory duties for ensuring proper administration of the Council's financial affairs.
- ) Championing good governance by helping to improve the Council's risk management, control and governance processes by providing management with timely advice and guidance.
- ) Supporting the Audit Committee in fulfilling its governance responsibilities as detailed in the Committee's terms of reference set out in the Council's Constitution.
- ) Supporting Officers and Members in identifying and understanding exposure to risk and providing advice on control design, techniques and strategies.
- ) Working with other assurance and review bodies to ascertain the extent to which reliance can be placed on the work of other auditors and inspectorates to maximise assurance and the effectiveness of audit resources available.
- ) Helping to promote a strong counter fraud culture across the Council, through the development and effective implementation of the Council's Counter Fraud and Corruption Strategy and Anti-Money Laundering policy.
- ) Providing quality services through the highest standards of professional practice, quality assurance systems and investment in staff.
- ) Be future focussed and to continually add value to the organisation.

## 8. Outcomes of Internal Audit

8.1 The main outcome is the provision of independent assurance to "those charged with governance", which within Durham County Council is the Audit Committee, on the effectiveness or otherwise of the Council's risk management, control and governance arrangements and in so doing we contribute to:

- ) Improved identification and management of risks contributing to improved performance management and the successful achievement of the Council's vision and priorities.
- ) Improved corporate governance through helping to support compliance with relevant legislation, the Council's policies, plans and procedures.
- ) Improved accountability, safeguarding of Council assets and interests and use of public resources.
- ) Improved quality and reliability of financial and other management information used to support informed decisions.

## 9. Independence, Objectivity and Authority

- 9.1 To be effective Internal Audit must operate independently and in an unbiased manner and have unrestricted access to all information deemed necessary in the course of its work.
- 9.2 The Chief Internal Auditor and Corporate Fraud Manager has direct and unrestricted access to any employee or elected member including the Chief Executive, the Leader of the Council, Corporate Management Team and the Audit Committee.
- 9.3 For day to day operational activities the Chief Internal Auditor and Corporate Fraud Manager reports to the Corporate Director of Resources but maintains independence by reporting in their own name on functionality of the audit service direct to the Audit Committee.
- 9.4 Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free and unrestricted access to all records, assets, elected members, personnel and premises, including those of partner organisations or external contractors conducting business on behalf of or in partnership with the Council, in order to obtain such information and explanations as it considers necessary to fulfil its responsibilities.
- 9.5 Internal Audit will remain free from interference by any element in the organisation including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of the necessary independent and objective standards.
- 9.6 Objectivity is maintained by ensuring that all internal auditors are free from any conflicts of interest and being free from direct management responsibility for the development, implementation or operations of any of activities audited.
- 9.7 Internal auditors will not be allocated to assurance reviews in areas where they have had a responsibility for, or have undertaken any significant advice and consultancy work, within the previous two years.
- 9.8 As the Chief Internal Auditor and Corporate Fraud Manager also has responsibility for corporate risk management, counter fraud and insurance services, arrangements will be made for any audit work to be carried out in these areas by a suitably experienced and qualified auditor. In these cases the Chief Internal Auditor and Corporate Fraud Manager will remove themselves from the review process of these audits and all findings and draft reports will be shared at their conclusion with both the Chief Internal Auditor and Corporate Fraud Manager and the Corporate Director, Resources in order to apply the necessary safeguards as set out in PSIAS standard 1112 where the Chief Audit Executive has roles beyond Internal Auditing.

## 10. Scope of Audit Work

- 10.1 Internal Audit's role applies to all functions and services for which the Council is responsible, including those delivered by its partners where appropriate.
- 10.2 In addition to the regular review of all key systems of internal control which forms the majority of assurance work, Internal Audit will:
- ) Respond to requests for support, advice and guidance on implementing and/or improving best practice control procedures for current and new systems.
  - ) Promote the development and effective implementation of Control and Risk Self Assessments (CRSA) as outlined within the Audit Approach Section of this Charter.
  - ) Provide support, advice and guidance on risk and controls to staff involved in the design and implementation of new systems and processes.
  - ) Provide assistance on key projects, including attendance on project boards, and conduct specialist consultancy and value for money reviews. The scope of this work is agreed with management and is subject to having the necessary resources, skills and ensuring suitable assurance over Internal Audit's independence and objectivity. Any significant advice and consultancy work that may be considered to impact on the independence of the Internal Audit Service will be reported to the Audit Committee for approval.
  - ) Be alert in all its work to risks and exposure that could allow fraud or corruption to occur and to any indications that a fraudulent or corrupt practice may have been occurring
  - ) Review controls where a potential fraud has been detected/reported to provide assurance that the alleged fraudulent activity is unable to continue and to prevent a reoccurrence.
  - ) Determine the most appropriate course of action by which fraud and irregularities should be investigated in accordance with the Council's Counter Fraud and Corruption Policy.
- 10.3 It must be noted that whilst Internal Audit will promote the Council's Counter Fraud Policy to deter and prevent fraud, for example participating in the National Fraud Initiative, it does not have responsibility for the prevention and detection of fraud and corruption. Internal Audit cannot guarantee that fraud or corruption will be detected in its work. Managing the risk of fraud and corruption is the responsibility of all service managers.

## 11. Strategic Audit Planning

- 11.1 The level of internal audit resources required to examine all of the Council's activities exceeds those available each year. It is, therefore, essential that the work of internal audit is properly planned to ensure that sufficient work is undertaken each year to draw reasonable conclusion and assurance on the effectiveness of the Council's risk management, control and governance arrangements.
- 11.2 Strategic planning processes aim to provide a reasonable level of independent review of the Council's risk management, control and governance systems through periodic audit plans in a way which affords suitable priority to the Council's objectives and risks.
- 11.3 The starting point for strategic planning is maintaining an understanding of the Council's strategic aims and objectives, its corporate governance arrangements and the assurance framework in place by which those charged with governance gain confidence that any risks which may impact on the achievement of those aims and objectives are effectively identified, assessed and managed.
- 11.4 In consultation with service managers internal audit will
- ) Consider the Council's risk across two categories:
    - a. **Strategic Risks** - these are the business risks that may arise both internally and externally from the Council and should be included in Corporate and Service Strategic Risk Registers
    - b. **Operational Risks** - these are the risks that arise directly from the core activities of delivering services that may not always be documented
  - ) Identify key service delivery activities, and their objectives in supporting the delivery of Council's strategic aims and objectives, on which assurance is required by those charged with governance (the Audit Universe)
  - ) Review the Council's assurance arrangements in place to clearly map out an integrated assurance framework of all known sources of assurance, independent or otherwise, and identify any gaps and duplication
  - ) Assess the reliability of other assurance sources
  - ) Regularly carry out risk assessments of each key service activity, and key systems that support the delivery of service objectives, to determine the priorities for reviewing operational risks.

- 11.5 Strategic risk registers will inform but not drive the internal planning process and internal audit will audit those risks where controls have been identified as the means of managing the risk. Priority will be given to those risks which have a high gross score and a low net score, where the effective management of the risk is heavily dependent on the identified controls, and there is little or no other source of assurance.
- 11.6 Assurance on the strategic risk of fraud and corruption will be provided each year with some specific targeted fraud prevention and detection reviews as part of a risk assessed counter fraud programme of work.
- 11.7 Internal Audit will aim to review operational risks relating to key service activities and key systems within a five year rolling programme, dependent on an audit assessment of known risks and the reliability of other assurance sources. Some key risks where a high level of assurance is required to demonstrate the continuous effectiveness of internal controls, for example those associated with key financial systems, may be subject to annual review. The timing of reviews will be agreed in consultation with management wherever possible.

## 12. Annual Audit Plans

- 12.1 Annual audit plans will be developed to provide a reasonable level of independent assurance on both strategic and operational risks to enable an annual opinion on the entire control environment to be given.
- 12.2 The preparation of the annual plan will also consider any strategic objectives of the service in relation to delivering any commitments under Service Level Agreements or undertaking certain reviews at particular frequencies to fulfil statutory requirements.
- 12.3 In addition to risk based assurance reviews, the annual audit plan will also include provision for advice and consultancy. This provision covers time set aside for reactive and proactive value added work and includes:
- ) Proactive, responsive and innovative solutions to problems and opportunities to help the organisation achieve its business objectives
  - ) Timely response to ad hoc requests for advice on the identification, assessment and mitigation of risks through effective controls
  - ) Timely response to ad hoc requests for advice on the impact of proposed policy initiatives, programmes and projects as well as responses to emerging risks
  - ) Planned involvement in new initiatives or working groups established to help identify and assess risk and design suitable controls
  - ) Undertaking VFM reviews.
  - ) Investigation of irregularities and suspected fraud and corruption
  - ) Grant certification work requiring independent assurance that grant terms and conditions have been met.

- 12.4 The level of audit resources required to deliver, at the very least, both a minimum level of independent assurance and adequate provision for advice and consultancy will be considered by the Chief Internal Auditor and Corporate Fraud Manager. Minimum assurance levels will be informed by the maturity of the Council's risk management arrangements and the reliance that can be placed on other assurance sources. Any concerns the Chief Internal Auditor and Corporate Fraud Manager has over the quantity and quality of skills available to deliver the required level of assurance, or to add value through its advice and consultancy work, will be referred to the Section 151 Officer (Chief Financial Officer) and the Audit Committee for consideration.
- 12.5 Strategic and annual plans will be considered by the Corporate Management Team and approved and monitored by the Audit Committee.

## 13. Audit Approach

- 13.1 Internal Audit will adopt a risk based approach to all assurance work as outlined below:

### Strategic Risk

- 13.2 Reviews of strategic risks will provide assurance that:

- ) Risk management processes, defined by the Council's risk management strategy and policy, are in place and are operating as intended
- ) Managers are responding to risks adequately and effectively so that those risks are reduced to an acceptable level
- ) The controls that managers have in place are successful in managing those risks

### Operational Risk

- 13.3 Reviews of key service delivery activities and key systems will provide assurance on the effectiveness of

- ) Compliance with corporate governance arrangements
- ) Risk identification, assessment and business continuity
- ) The control environment to manage identified risks and to ensure that the Council's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money, including
- ) Information governance (quality and integrity of financial and other management information and how it is used and communicated)

- 13.4 Internal Audit will adopt a risk based approach to evaluate the effectiveness of controls designed to mitigate risks through substantive testing and/or compliance testing. Compliance testing will confirm if a control actually exists and substantive testing will provide assurance that the control is effective and / or is consistently applied. The level of testing will be relative to the impact and likelihood of the risk occurring due to a control weakness.
- 13.5 Internal Audit will work with service managers to help embed effective risk management by supporting them to carry out a control and risk assessment (CRA) of operational risks for each audit area subject to review in advance of each assurance audit.
- 13.6 Internal Audit will agree the objectives and risks associated with each key system or service delivery area to be reviewed with the relevant service manager/key contact prior to the start of any audit to ensure that the scope and objectives of each review are focused on providing assurance on the high or significant risks identified through the CRA. Terms of reference will be issued to key contacts to formally agree the scope of each review, identified keys risks, potential impact and expected key controls.
- 13.7 The key contact is the person who is authorised by the head of service to agree resultant draft reports and the implementation of any proposed audit recommendations.
- 13.8 Terms of Reference will confirm the scope of each review and the audit approach to be applied. The latter may vary due to the nature of the risk upon which assurance is required and the extent of reliance on other assurances sources.

## **14. Audit Reporting**

- 14.1 All audit assignments will be the subject of formal reports and all assurance reviews will include an audit opinion.
- 14.2 The reporting structure is designed to ensure that final versions of reports are agreed with managers and are both accurate and practical.
- 14.3 Towards the end of an audit an exit meeting with the key contact will be arranged to share and discuss initial audit findings. If this is not practical, an informal draft report will be issued to the key contact which will set out initial findings.
- 14.4 The purpose of the exit meeting/informal draft stage is to give feedback and to eliminate any inaccuracies in audit findings so that these can be resolved before a formal draft report is issued.
- 14.5 Draft reports will ask the key contact to provide a management response to the recommendations made and agree target implementation dates and responsible officers.

- 14.6 To assist managers in their response, the importance of findings/recommendations are categorised as High, Medium or Best Practice. Details of how the importance of audit findings is assessed leading to these recommendation rankings are given in Appendix A.
- 14.7 It is the responsibility of managers to address audit findings and implement audit recommendations or other agreed appropriate action, or accept the risk resulting from not taking action.
- 14.8 An overall opinion will be provided on each assurance audit review to help inform the overall opinion required to support the Council's Annual Governance Statement.
- 14.9 The determination of the audit assurance opinion is derived from the overall level of assurance on the effectiveness of controls operating in each specific area reviewed and is informed by the risk identified through recommendation rankings. Where a Limited Assurance opinion is given the control framework in place is considered to be ineffective and requires improvement to maintain an acceptable level of control. Further details of how assurance opinions are derived are given in Appendix A.
- 14.10 Management responses to recommendations made in draft reports will be incorporated into audit reports that will then be reissued as finals. Copies of all final reports are shared with the Council's External Auditor on request.
- 14.11 The CRA will be updated with any further expected controls identified through the audit process and details of actual controls in place, and issued to key contacts as part of the reporting process. If controls are considered to be inadequate, recommended action to improve controls will also be entered to provide services managers with a form of operational risk register that, in the absence of a more formal approach to operational risk management, can then be used by service managers to regularly review identified risks and the control framework put in place to mitigate those risks, i.e. provide a basis for regular Control Risk Self-Assessment (CRSA). It is recommended that the CRSA is reviewed by service managers at least annually.
- 14.12 Wherever possible the circulation of audit reports will be agreed at the outset and will have due regard to confidentiality and legal requirements. Any information gained in the course of audit work remains confidential without limiting or preventing internal audit from meeting its reporting responsibilities to the wider organisation.
- 14.13 Internal Audit will follow-up progress made by managers in responding to draft reports and on the implementation of all high and medium priority recommendations agreed in final reports.

- 14.14 Progress on the response to draft reports issued and the implementation of agreed recommendations will be reported to Audit Committee. Any significant recommendations overdue will be reported to Committee on an exception basis each quarter. In accordance with the Committee's request, where any significant recommendations remain overdue the following quarter the responsible manager will be asked to attend Audit Committee to provide an explanation for the delay.
- 14.15 Management is required to provide a response to draft reports issued within 20 working days. If a response has not been received within this timescale the following escalation process will then be invoked:
- ) A reminder will be sent to the key contact, and copied into the relevant head of service, requesting a response within the next 10 days
  - ) If a response is still not forthcoming, a second reminder will be issued direct to the head of service, advising that if a response is not received within the next 5 days the matter will be reported to the relevant Corporate Director
  - ) All draft reports remaining outstanding at the end of each quarter will be reported to the Audit Committee.
- 14.16 Audit and Fraud Managers will report quarterly to Service Grouping Management Teams on progress made on delivering the agreed annual plan, unplanned work carried out and any proposed amendments to the plan, overdue responses to draft reports, any significant issues arising from audit work and progress made by managers in implementing audit recommendations.
- 14.17 To help focus attention on areas of significant risk, quarterly progress reports will include by exception details of all audits resulting in a limited assurance opinion.
- 14.18 Where a limited assurance opinion is given, it is the intention of Internal Audit to follow up the audit within six months of issue to verify that the recommendations have been made in line with the agreed actions. A revised assurance opinion will then be given.

14.19 In accordance with the PSIAS, to maintain organisational independence, Internal Audit will report on the functionality of the audit service to Audit Committee by:

**Reporting a draft annual risk based audit plan for approval**

**Presenting Quarterly Internal Audit Progress reports:**

- ) To consider progress made in delivering the agreed annual plan
- ) To inform Members of significant issues arising from audit assurance work and the impact this may have if control weaknesses identified are not addressed
- ) To inform Members of other audit work carried out or planned
- ) To consider progress made by managers in the implementation of audit recommendations drawing attention to significant risks not being effectively managed

**Presenting an Annual Audit Report to:**

- ) Compare actual activity with planned work and performance targets
- ) Provide an overall opinion on the control environment
- ) Provide a summary of work undertaken to formulate the annual opinion on the entire control environment, including reliance placed on work by other assurance bodies
- ) Demonstrate the extent of compliance with the PSIAS and the results of the Quality Assurance and Improvement Programme, including internal and any external assessments carried out.
- ) Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement.

## **15. Responsibilities of Managers**

- 15.1 Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the service, its reputation and independence.
- 15.2 Internal Audit will strive to build effective working relationships with all stakeholders, internal and external, by encouraging an environment of mutual trust, confidence and understanding.
- 15.3 A key relationship is with managers across the organisations. Managers at all levels need complete confidence in the integrity, independence and capability of internal audit.

- 15.4 Managers' role is to manage the risks facing their service and to maintain an adequate and effective system of internal control to mitigate these risks. Managers are also responsible for ensuring that employees are aware of the processes and procedures required to operate the control systems in place.
- 15.5 It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of fraud and irregularities. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.
- 15.6 Internal Audit will endeavour to plan its work so that it has a reasonable expectation of detecting significant control weaknesses and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- 15.7 Managers are encouraged to maximise the effectiveness of the outcome of internal audit work by:
- ) Commenting on, and inputting to, strategic and annual audit plans.
  - ) Working with audit staff in the development of a control and risk assessment (CRA) for the service activity or system as part of the preparation and planning stage of each assurance review.
  - ) Agreeing terms of reference, informed by the CRA where applicable, for each audit assignment to ensure attention is focused on areas of greatest risk or concern.
  - ) Giving information and explanations that are sought during audit reviews.
  - ) Providing access at all reasonable times to premises, personnel, documents and assets as necessary.
  - ) Giving early notification of plans for change, including potential new initiatives, operational systems and processes.
  - ) Ensuring key contacts provide responses to draft audit reports within the required timescales.
  - ) Ensuring agreed actions arising from audit recommendations are carried out efficiently and on a timely basis
  - ) Notifying internal audit of any suspected fraud, irregularity, improper use or misappropriation of the Council's property or resources.
  - ) Pending investigation and reporting, take all responsible steps to prevent further loss and to secure records and documents against removal or alteration.
  - ) Acting in line with the Council's disciplinary procedures.

## **16. Relationship with the Audit Committee**

- 16.1 The Council has adopted best practice in implementing an Audit Committee. This committee is independent of both the Executive and Scrutiny function, and reports directly to the Council on matters it feels are relevant. Terms of Reference, reflecting best practice, have been agreed.
- 16.2 The existence of an independent and effective Audit Committee helps to convey to employees and the public the importance Members and Officers attach to risk management, corporate governance and internal control.
- 16.3 The Audit Committee is not just the concern of auditors as it has responsibility for ensuring that the Council has good corporate governance arrangements in place to help deliver the best services to support the Council's priorities, aims and objectives and ensure excellent use of resources.
- 16.4 Internal Audit is one of a number of assurance providers that contribute to the Council's corporate assurance framework. It does this by providing an opinion on the level of assurance the Council can place upon the entire internal control environment and by making recommendations to improve it. This includes Internal Audit's evaluation of the effectiveness of the Council's risk management and corporate governance arrangements.
- 16.5 It is important that the Council seeks independent assurance about the mechanisms underpinning the various aspects of governance and one of the responsibilities of the Audit Committee is to review the functionality and effectiveness of Internal Audit.

## **17. Audit Resources, Skills and Service Quality**

- 17.1 In order for Internal Audit to demonstrate high standards of professional conduct, the Internal Auditor must be impartial in discharging all responsibilities. Bias, prejudice or undue influence must not be allowed to limit or override objectivity.
- 17.2 The service is required to operate in compliance with both the PSIAS and the LGAN. Policies and standard working practices have been put in place to ensure all audit staff understand and comply with the PSIAS/LGAN.
- 17.3 An important element of the PSIAS is the requirement to undertake regular quality assurance assessments and maintain a quality assurance and improvement programme.
- 17.4 A quality assurance framework, detailing the policies, procedures and working practices under which the service operates has been defined and documented in an Audit Manual.

- 17.5 The Chief Internal Auditor and Corporate Fraud Manager is responsible for providing periodically a self-assessment on the effectiveness of the internal audit service and compliance with agreed procedures to ensure professional standards are maintained. Any areas of non-compliance with the standards and or the LGAN will be reported as part of the Annual Audit Report to Corporate Management Team and the Audit Committee.
- 17.6 In accordance with the PSIAS, an external assessment will be carried out at least every five years. The results of this external assessment will also be reported to the Corporate Management Team and the Audit Committee.
- 17.7 The service is provided by Durham County Council's in house internal audit team, supported in specialist areas as and when considered necessary by a third party partner. The staffing structure will, as far as possible, be comprised of a suitable mix of qualifications, experience and skills.
- 17.8 The Chief Internal Auditor and Corporate Fraud Manager ensures internal audit resources are sufficient to meet its responsibilities and achieve its objectives. Resource requirements are reviewed annually in relation to draft annual audit plans. Resources will be considered in terms of available days and the skills and experience of audit staff. Any concerns that the Chief Internal Auditor and Corporate Fraud Manager has regarding resources available to deliver the service in accordance with the PSIAS will be reported to the Corporate Director, Resources and the Audit Committee.
- 17.9 Individual training needs are identified in accordance with the Council's Performance Appraisal Scheme and supplemented by regular audit skills assessments and post audit reviews. As well as basic training in audit techniques and the development of specialist skills, the service is committed to coaching and mentoring its staff and to providing opportunities for continuous professional development to all staff.
- 17.10 Internal Audit maintains its awareness of national and local issues through membership and subscription to professional bodies such as CIPFA's Better Governance Forum, Technical Information Service, Finance Advisory Network (FAN), County Chief Internal Auditor Network, the Institute of Internal Auditors and through regular liaison with external audit.
- 17.11 The service will keep abreast of best audit practice by adhering to CIPFA's and the IIA's practice advisories and practice guides, where applicable, as well as networking with other internal audit service providers.
- 17.12 In this regard the service considers trends and emerging issues that could impact the organisation.
- 17.13 A suite of performance indicators (PIs) and targets has been developed to measure and monitor the performance and effectiveness of the service. The current PI's are detailed in Appendix B. PIs and targets will be reviewed annually.

17.14 In accordance with the requirements of the Accounts and Audit Regulations 2015, an annual review of the effectiveness of the internal audit service is undertaken by the Audit Committee. This will be informed by a review of the service carried out by the Corporate Director Resources and from consideration of the Quality Assurance and Improvement Programme and any internal or external assessments required by the PSIAS. By reviewing the service the Audit Committee is able to gain assurance that the service maintains its independence and objectivity, that it is effective and conforms to the expected professional quality standards so that it can place reliance on its work and the annual audit opinion.

17.15 The outcome from the annual effectiveness review is reported to the Corporate Management Team and Audit Committee as part of the Annual Internal Audit Report.

## 18. Approval and Review

18.1 The Chief Internal Auditor and Corporate Fraud Manager will review this Charter annually to ensure that it is kept up to date and fit for purpose. The Charter is endorsed by the Corporate Management Team and approved by the Audit Committee. Any amendments will be reported to the Audit Committee for approval. A copy of the Charter will be made available on the Council's intranet.

## 19. Key Contact

Name: Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager

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Email:

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Address

Internal Audit and Risk Division  
Resources Directorate  
Durham County Council  
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Durham  
DH1 5UE

## 20. Other Related Documents

Other related documents that should be read in conjunction with this Charter are:

- ) Public Sector Internal Audit Standards
- ) CIPFA's Local Government Application Note
- ) The Council's Risk Management Strategy
- ) The Council's Constitution – Financial Procedure Rules
- ) The Council's Constitution – Local Code of Corporate Governance
- ) The Council's Constitution – Codes of Conduct
- ) The Council's Counter Fraud and Corruption Strategy and Fraud Response Plan
- ) The Council's Confidential Reporting Code (Whistle Blowing Policy)

## ASSESSMENT OF AUDIT FINDINGS, RECOMMENDATIONS AND AUDIT OPINIONS

## APPENDIX A

**Findings**

Individual findings are assessed on their impact and likelihood based on the assessment rationale in the tables below:

<b>Impact Rating</b>	<b>Assessment Rationale</b>
<b>Critical</b>	<b>A finding that could have a:</b>
	<b>Critical</b> impact on operational performance (Significant disruption to service delivery)
	<b>Critical</b> monetary or financial statement impact (In excess of 5% of service income or expenditure budget )
	<b>Critical</b> breach in laws and regulations that could result in significant fine and consequences (Intervention by regulatory body or failure to maintain existing status under inspection regime)
	<b>Critical</b> impact on the reputation of the Council (Significant reputational damage with partners/central government and/or significant number of complaints from service users)
	<b>Critical</b> impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public)
<b>Major</b>	<b>A finding that could have a:</b>
	<b>Major</b> impact on operational performance (Disruption to service delivery)
	<b>Major</b> monetary or financial statement impact (1-5% of service income or expenditure budget )
	<b>Major</b> breach in laws, regulations or internal policies and procedures (non compliance will have major impact on operational performance, monetary or financial statement impact or reputation of the service)
	<b>Major</b> impact on the reputation of the service within the Council and/or complaints from service users
<b>Minor</b>	<b>A finding that could have a:</b>
	<b>Minor</b> impact on operational performance (Very little or no disruption to service delivery)
	<b>Minor</b> monetary or financial statement impact (less than 1% of service income or expenditure budget )
	<b>Minor</b> breach in internal policies and procedures (non compliance will have very little or no impact on operational performance, monetary or financial statement impact or reputation of the service)

<b>Likelihood</b>	<b>Assessment criteria</b>
<b>Probable</b>	Highly likely that the event will occur (>50% chance of occurring)
<b>Possible</b>	Reasonable likelihood that the event will occur (10% - 50% chance of occurring)
<b>Unlikely</b>	The event is not expected to occur (<10% chance of occurring)

**Overall Finding Rating**

This grid is used to determine the overall finding rating.

<b>LIKELIHOOD</b>			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	M
	Minor	Major	Critical
	<b>IMPACT</b>		

**Priority of recommendations**

The definition of the priority of recommendations arising from each overall finding as follows;

<b>High</b>	Action that is considered imperative to ensure that the service/system/process objectives are not exposed to <b>significant risk</b> from weaknesses in critical or key controls
<b>Medium</b>	Action is required to ensure that the service/system/process objectives are not exposed to <b>major risk</b> from weaknesses in controls
<b>Best Practice</b>	The issue merits attention and its implementation will enhance the control environment or promote value for money.

**Overall Assurance Opinion**

Based upon the ratings of findings and recommendations arising during the audit as summarised in risk matrix above we define the overall conclusion of the audit through the following assurance opinions:

<b>Substantial Assurance</b>	Whilst there is a sound system of control, there are some weaknesses, which may put some of the system objectives at minor risk.
<b>Moderate Assurance</b>	Whilst there is basically a sound system of control, there are some weaknesses, which may put some of the system objectives at major risk.
<b>Limited Assurance</b>	There are weaknesses in key areas in the system of control, which put the system objectives at significant risk.

**PERFORMANCE INDICATORS**

**APPENDIX B**

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<b>Efficiency</b>		
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>
Productive audit time achieved	% of planned productive time from original approved plan completed as at 31 <sup>st</sup> March.	90% (Monthly)
Timeliness of Draft Reports	% of draft reports issued within 20 working days of end of fieldwork/closure interview  Average time taken is also reported for information	100% (Monthly)
Timeliness of Final Reports	% of final reports issued within 10 working days of receipt of management response  Average time taken is also reported for information	100% (Monthly)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)
<b>Quality</b>		
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Monthly)
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (3 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)

## Public Sector Internal Audit Standards

### Definition of the terms 'Board' and 'Senior Management' for the purpose of Internal Audit Activity

Standard		Reference to board or senior management	Proposed body/group to fulfil role	
Ref	Title		Senior Management	Board
1000	Purpose, authority and responsibility	<b>Senior Management</b> and the <b>board</b> must approve the Internal Audit Charter	Corporate Management Team (CMT)	The Audit Committee
1110	Organisational Independence	<p>The Chief Audit Executive (CAE) must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The CAE must confirm to the <b>board</b> at least annually the organisational independence of the Internal Audit activity.</p> <p>The CAE must report functionality to the <b>board</b>. The CAE must also establish effective communication with, and have free and unfettered access to the Chief Executive and the Chair of the Audit Committee.</p> <p>Functionality includes:</p> <ul style="list-style-type: none"> <li>) Approving the Internal Audit Charter</li> <li>) Approving the Risk Based Internal Audit Plan</li> <li>) *Approving the internal audit budget and resource plan</li> </ul>		<p>The Audit Committee</p> <p>The Audit Committee with the exception of those functions marked with an* which are the responsibility of the Corporate Director, Resources who has delegated authority from Council to maintain an effective internal service.</p> <p><b>Note</b></p>

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		<ul style="list-style-type: none"> <li>) Receiving communications for the CAE on the internal audit activity's performance relative to its plan and other matters</li> <li>) *Approving decisions regarding the appointment and removal of the CAE</li> <li>) *Approving the remuneration of the CAE and</li> <li>) Making appropriate enquiries of management and the CAE to determine whether there are inappropriate enquires of management and CAE to determine whether there are inappropriate scope or resources limitations</li> </ul>		<p>The public sector interpretation with the PSIAS acknowledges that in the UK public sector the board would not generally approve the CAE's remuneration.</p> <p><i>"The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the Chief Executive undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the Chair of the Audit Committee "</i></p>
1130. C2	Impairment to Independence or Objectivity	Approval must be sought from the <b>board</b> for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement		The Audit Committee
1312	Quality Assurance and Improvement Programme (QAIP)	External Assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team form outside the organisation. The CAE must discuss with the <b>board</b> :		The Audit Committee
		) The form of external assessments		

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		<p>) The qualifications and independence of the external assessor or assessment, including any potential conflict of interests</p> <p>NB The Public Sector requirement of this standard states,</p> <p><b>“The CAE must agree the scope of external assessments with an appropriate sponsor e.g. the Accounting/Accountable Officer or Chair of the audit committee as well as with the external assessor or assessment team”</b></p>		
1320	Reporting the results of QAIP	The CAE must communicate the results of the quality assurance and improvement programme to <b>senior management</b> and the <b>board</b> .	CMT	The Audit Committee
1322	Disclosure of Non - Conformance	Instances of non-conformance with the definition of Internal Auditing , the Code of Ethics or the standards impacts the overall scope or operation of the Internal Audit Activity, must be reported to the <b>board</b> by the CAE. More significant deviations must be considered for inclusion in the annual governance statement		The Audit Committee

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2020	Communications and Approval	<p>The CAE must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to <b>senior management</b> and the <b>board</b> for review and approval.</p> <p>Where the CAE believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the <b>board</b>.</p>	CMT	The Audit Committee
2060	Reporting to Senior Management and the Board	<p>The CAE must report periodically to <b>senior management</b> and the <b>board</b> on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must include significant risk exposures and control issues, including fraud risks governance issues and other matters needed or requested by senior management and the board.</p>	CMT	The Audit Committee
2600	Communicating the Acceptance of Risk	<p>When the CAE concludes that management has accepted a low level of risk that may be unacceptable to the organisation, the CAE must discuss the matter with <b>senior management</b>. If the CAE determines that the matter has not been resolved, the CAE must communicate the matter to the <b>board</b>.</p>	CMT	The Audit Committee

**NB. The role of Chief Audit Executive referred to in the Standards is that undertaken by the Chief Internal Auditor and Corporate Fraud Manager.**

## DURHAM COUNTY COUNCIL - INTERNAL AUDIT PLAN 2017 / 2018

Service Grouping	Audit Activity	Audit Type	Days
Adult and Health Services	Pollution Control - Planning Consultation Arrangements	Assurance	5
Adult and Health Services	Contaminated Land - Planning Consultation Arrangements	Assurance	5
Adult and Health Services	Accumulations Protocol	Assurance	5
Adult and Health Services	Shared Lives - Follow Up	Assurance	8
Adult and Health Services	Direct Payments - Direct Payment Cards	Advice & Consultancy	10
Adult and Health Services	County Durham Care & Support Review	Advice & Consultancy	2
Adult and Health Services	Transition Arrangements between Childrens and Adult Services	Assurance	10
Adult and Health Services	Payments to Independent Residential Homes (Quality Band Assessment etc)	Assurance	15
Adult and Health Services	Approval and Payment of Commissioned Services - Panel arrangements for payments to providers	Assurance	15
Adult and Health Services	Supplier masterfile - SSID Independent Sector Suppliers follow up	Assurance	5
Adult and Health Services	Licensing Arrangements for Houses in Multiple Occupation	Advice & Consultancy	10
Adult and Health Services	Intelligence Handling within EHCP	Assurance	8
Adult and Health Services	Trading Standards Grant	Grant Certification	4
Adult and Health Services	Information Security - Caldicott Compliance	Assurance	5
Adult and Health Services	Information Security - Caldicott Group	Advice & Consultancy	2
Adult and Health Services	Contracting and Payment Arrangements for Sexual Health	Assurance	15
Adult and Health Services	Medical Examiners Service - Transition Arrangements	Assurance	15
Children and Young People's Services	Aycliffe Locality Office, Residential and Secure Services - Follow Up	Assurance	10
Children and Young People's Services	Foster Carers - Follow Up	Assurance	15
Children and Young People's Services	Schools - Safe Recruitment and Selection	Assurance	15
Children and Young People's Services	Scheme of Delegation in CYPS	Assurance	10
Children and Young People's Services	Petty Cash Arrangements - One Point Hubs	Advice & Consultancy	15
Children and Young People's Services	Petty Cash Arrangements - Locality Offices	Advice & Consultancy	10
Children and Young People's Services	Children's Homes (Establishment Audit)	Assurance	5
Children and Young People's Services	Children's Centres (Establishment Audit)	Assurance	5
Children and Young People's Services	Troubled Families Programme	Grant Certification	5
Children and Young People's Services	Adoption Services (Joint Review with Quality Improvement Team)	Assurance	15
Children and Young People's Services	Youth Employment Initiative - Durham Works	Advice & Consultancy	10
Children and Young People's Services	Youth Employment Initiative	Grant Certification	8
Children and Young People's Services	Arrangements for the allocation of SEN funding and its application in schools	Assurance	15
Children and Young People's Services	Schools Organisations and Capital Programme	Assurance	15
Children and Young People's Services	Children Missing from Education	Assurance	8
Children and Young People's Services	Arrangements for the allocation of Pupil Premium funding and its application in schools	Assurance	15
Children and Young People's Services	Award of additional pay in Schools	Assurance	10
Children and Young People's Services	Schools Financial Value Standard (SFVS)	Advice & Consultancy	10
Children and Young People's Services	Governor Training	Advice & Consultancy	6
Children and Young People's Services	School Business Manager Training	Advice & Consultancy	4
Children and Young People's Services	Head Teacher induction to Finance and Budgeting	Advice & Consultancy	1
Children and Young People's Services	Schools User Provider Group	Advice & Consultancy	1
Children and Young People's Services	Information Security - Caldicott Compliance	Assurance	5

Service Grouping	Audit Activity	Audit Type	Days
Children and Young People's Services	SSID Replacement	Advice & Consultancy	10
Regeneration and Local Services	Low Carbo 1	Grant Certification	4
Regeneration and Local Services	Low Carbo 2	Grant Certification	4
Regeneration and Local Services	Rebus 1	Grant Certification	4
Regeneration and Local Services	Rebus 2	Grant Certification	4
Regeneration and Local Services	Planning Applications	Assurance	15
Regeneration and Local Services	Project Management (Deferred from 2016/17)	Advice & Consultancy	10
Regeneration and Local Services	Accommodation	Advice & Consultancy	10
Regeneration and Local Services	Stephanie	Grant Certification	4
Regeneration and Local Services	Choice Based Letting Scheme	Assurance	10
Regeneration and Local Services	Disabled Facilities Grant	Grant Certification	6
Regeneration and Local Services	Local Transport Capital Block Funding	Grant Certification	4
Regeneration and Local Services	Bus Subsidy Ring Fenced Grant	Grant Certification	2
Regeneration and Local Services	Local Growth Fund - Station Cycle Links	Grant Certification	3
Regeneration and Local Services	Local Growth Fund - Forest Park	Grant Certification	3
Regeneration and Local Services	Local Growth Fund - Bishop Auckland Market Place	Grant Certification	3
Regeneration and Local Services	Wheels to Work	Grant Certification	3
Regeneration and Local Services	Transport (Follow Up)	Assurance	10
Regeneration and Local Services	On Street and Off Street Parking (Follow Up)	Assurance	5
Regeneration and Local Services	Bereavement Services	Assurance	15
Regeneration and Local Services	ASB Powers / Training in relation to Crime Policing Bill	Assurance	15
Regeneration and Local Services	Fleet Management	Assurance	15
Regeneration and Local Services	Hire of Vehicles and Skips	Assurance	10
Regeneration and Local Services	QMS Quarterly Visit	Advice & Consultancy	6
Regeneration and Local Services	Bulky Goods Collections Service (Deferred from 2016/17)	Advice & Consultancy	8
Regeneration and Local Services	Allotments - Follow Up (Deferred from 2016/17)	Assurance	3
Regeneration and Local Services	Flytipping (Deferred from 2016/17)	Assurance	2
Regeneration and Local Services	Effectiveness of MAIS and CSE arrangements (Deferred from 2016/17)	Assurance	10
Regeneration and Local Services	Waste Transfer Station (Thornley) - Financial Procedures	Advice & Consultancy	2
Regeneration and Local Services	CRM System (Deferred from 2016/17)	Assurance	10
Regeneration and Local Services	Rolling Programme of Leisure Centres - Chester le Street	Assurance	15
Regeneration and Local Services	Rolling Programme of Leisure Centres - Woodhouse Close	Assurance	15
Regeneration and Local Services	Leisure Centres Timesheets (Follow Up)	Assurance	10
Regeneration and Local Services	Leisureworks	Advice & Consultancy	10
Regeneration and Local Services	CLUK Income Share Agreement	Assurance	6
Regeneration and Local Services	Stanley Bowls	Advice & Consultancy	5
Regeneration and Local Services	Library System	Advice & Consultancy	5
Regeneration and Local Services	Locomotion	Assurance	10
Regeneration and Local Services	Gala - Box Office	Assurance	10
Regeneration and Local Services	Gala - Cinema and Catering	Advice & Consultancy	5
Regeneration and Local Services	Catering	Advice & Consultancy	5
Regeneration and Local Services	Local Highways Maintenance Funding - Incentive Element	Grant Certification	10

Service Grouping	Audit Activity	Audit Type	Days
Regeneration and Local Services	Local Transport Capital Block Funding for NECA	Grant Certification	3
Resources	Transformation Assurance	Assurance	30
Resources	Electoral Services	Assurance	10
Resources	Registrars	Assurance	10
Resources	RIPA Officers Group	Advice & Consultancy	1
Resources	General Ledger	Key System	5
Resources	Apprenticeship Levy Implementation Group	Advice & Consultancy	1
Resources	VAT	Key System	6
Resources	Bank Reconciliation	Key System	8
Resources	Treasury Management	Key System	10
Resources	Contract Register	Assurance	10
Resources	Contract Management	Assurance	15
Resources	Specifications	Assurance	10
Resources	Off Contract Spend	Assurance	15
Resources	Procurement Cards (Follow Up)	Assurance	3
Resources	Oracle Programme Board	Advice & Consultancy	2
Resources	Transactional Purchasing Improvement Group	Advice & Consultancy	1
Resources	Petty Cash and Payment Cards	Advice & Consultancy	3
Resources	ER/VR arrangements	Assurance	10
Resources	Health and Safety Training Requirments (Follow Up)	Assurance	4
Resources	Flexible Working - Variations to Contracts (Deferred from 2016/17)	Assurance	10
Resources	SLAs	Assurance	10
Resources	Section 256	Grant Certification	5
Resources	Shared Lives Service - Financial Inspections (Follow Up)	Assurance	5
Resources	FST Debit Card Account (Follow Up)	Assurance	4
Resources	Financial Deputees	Assurance	10
Resources	Financial Assessments and Reassessments	Assurance	10
Resources	Supporting People with Oxford Computer Consultants (SPOCC)	Assurance	7
Resources	Creditor Payments	Key System	50
Resources	IPIG	Advice & Consultancy	3
Resources	Better Care Fund (Sn 75)	Assurance	5
Resources	Payroll	Key System	50
Resources	Payroll - Implementation/Upgrade	Advice & Consultancy	10
Resources	Agency (Follow Up)	Assurance	5
Resources	Business Rates	Key System	50
Resources	HB and CTR	Key System	50
Resources	Welfare Assistance Scheme and Discretionary Housing Payments	Key System	10
Resources	Enforcement, including bailiff arrangements)	Assurance	10
Resources	Council Tax	Key System	50
Resources	Cash Management	Key System	50
Resources	Debtors	Key System	50
Resources	Debtors Working Group	Advice & Consultancy	3

Service Grouping	Audit Activity	Audit Type	Days
Resources	Caspar System	Assurance	15
Resources	Mobile Computing (Follow Up)	Assurance	3
Resources	Information Security - PSN	Assurance	6
Resources	Information Security - Procurement	Assurance	6
Resources	Business Continuity for ICT	Assurance	10
Resources	Software Licenses	Assurance	7
Resources	Asset Register (Follow Up)	Assurance	3
Resources	Business Travel and Accommodation	Assurance	10
Resources	Coroner	Assurance	10
Resources	Active Directory (Deferred from 2016/17)	Advice & Consultancy	10
Resources	Risk Management	Assurance	10
Transformation and Partnerships	Transformation Programme	Advice & Consultancy	30
Transformation and Partnerships	Business Continuity	Key System	10
Transformation and Partnerships	Data Quality Framework	Assurance	10
Transformation and Partnerships	Data Protection - General Data Protection Regulation (GDPR)	Assurance	10
Transformation and Partnerships	Data Protection - Potentially EDMS	Assurance	10
Transformation and Partnerships	Data Protection - Potentially use of privacy notices	Assurance	10
Transformation and Partnerships	Environmental Information Requests	Assurance	8
Transformation and Partnerships	Information Governance Group	Advice & Consultancy	4
Transformation and Partnerships	Community Buildings - Health & Safety Compliance	Assurance	15
Transformation and Partnerships	Community Grants Sample	Assurance	10

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