Audit Committee

Date	**Monday 31 July 2017**
Time	**10.00 am**
Venue	**Committee Room 1A, County Hall, Durham**

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 28 June 2017 (Pages 3 - 10)
3. Declarations of interest, if any
4. 2016/2017 Final Outturn for the General Fund and Collection Fund - Report of the Corporate Director of Resources (Pages 11 - 42)
5. Treasury Management Outturn 2016/2017 - Report of the External Auditor (Pages 43 - 56)
6. Strategic Risk Management - Progress Report for the quarter ended 30 June 2017 - Report of the Corporate Director of Resources (Pages 57 - 72)
7. Final Accounts 2016/17 - Update Report - Report of the Corporate Director of Resources (Pages 73 - 76)
8. Audit Completion Report 2016/2017 - Durham County Council - Report of the External Auditor (Pages 77 - 106)
9. Audit Completion Report 2016/2017 - Pension Fund - Report of the External Auditor (Pages 107 - 130)
10. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
11. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

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

12. 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
21 July 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

Contact: Jackie Graham **Tel: 03000269704**

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 2, County Hall, Durham on **Wednesday 28 June 2017 at 10.30 am**

Present:

Councillor J Rowlandson (Chairman)

Members of the Committee:
Councillors C Carr, M Davinson, S Robinson, J Shuttleworth and O Temple

Co-opted Members:
Mr D Beavis and Mr C Robinson

1 Apologies for absence

Apologies for absence were received from Councillors E Bell, J Carr and J Robinson

2 Minutes

The minutes of the meeting held on 24 February 2017 were confirmed as a correct record and signed by the Chairman.

3 Declarations of interest

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

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

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

The Finance Manager for Resources and Transformation and Partnerships explained that the current position showed healthy balance sheets and reserves. He added that future plans were included in the medium term financial plan.

Mr Robinson referred to the use of reserves and as £1bn had been used in the last 8 years he asked how sustainable this was looking forward. He was concerned at the narrative around this issue. The Finance Manager explained that the balance

sheet showed the bottom line position. Last year the housing stock write off was a big change and the pension fund liability was a negative reserve. He confirmed that the net position going forward should not change much. He added that the technical accounting reserves reflected bigger movements in the accounts. Mr Robinson said that he did not get that information from the narrative. The Corporate Director of Resources said that capital savings through the MTFP do have a balanced account going forward and that it was contained in the narrative more widely.
Mr Robinson further commented that the strong position going forward was summarised in the table and showed a reduction in the net value, which was not pure spend but accounting valuation. The Corporate Director of Resources said that this would be picked up in the statements going forward.

Councillor Carr was concerned that the risk of schools budgets was not referred to and he was informed that this would be included in a separate report to Cabinet as part of a wider schools review.

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

5 External Audit Progress Report - June 2017

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

Mr Collins of Mazars informed the Committee that this year there was an early close down of the accounts with a deadline of the end of July 2017. These would be presented at the July Audit Committee together with the value for money conclusion. Work on the housing benefit subsidy would be presented to Committee later in the year and it was noted that this area of work would need an appointed reporting accountant from 2018/19.

Councillor Davinson asked if the work already carried out for the Highways Assets could be used at a later date. Mr Collins advised that discussions were ongoing with CIPFA but as yet no dates had been given. It was hoped that a lot of the work undertaken by Mazars and the Council could be utilised.

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

6 Strategic Risk Management - Progress Report for the quarter ended 31 March 2017

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 Officer informed the Committee that there were now 22 strategic risks and highlighted the key changes of new risks, increased risks, removed risks and reduced risks.

Councillor Temple was pleased to see movement on the risk register as it was important to be meaningful to members. He confirmed that he had wrote to the Chair following his concerns expressed at the last meeting.

With reference to the new risk of 'progressive land slippage near the A690' Mr Robinson was assured that there would be some safety concerns but that the main risk was that it was a major road into Durham City. The Corporate Director of Resources said that although it was a road closure at this stage, should there be any danger of slippage it would be escalated.

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

7 Internal Audit Progress Report for the quarter ended 31 March 2017

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 January to March 2017 (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 102% of the total plan had been delivered, exceeding the target of 90%. There had been 4 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.

Mr Beavis referred to paragraph 17 where it was reported that 96% of the recommendations had been implemented and asked if they achieved their desired outcome. He was advised that where weaknesses had been identified in control the recommendations were accepted. The Chief Internal Auditor and Corporate Fraud Manager said that there was a cycle to their work and that they would always revisit a project and compared findings to the last Audit report. The Corporate Director Resources added that managers had a duty to ensure that controls were in place and if they were working.

Councillor Carr asked if the response rate survey could be referred back to Corporate Management Team. The Corporate Director of Resources confirmed that this would be picked up and reported back.

Referring to acronyms Councillor Temple asked if they could be explained in the report in future. In particular, he referred to MAIS, CSE and SQL.

Mr Robinson referred to the outstanding issues and asked if any issues were fed into the opinion. The Chief Internal Auditor and Corporate Fraud Manager advised that there were no significant issues that affected his Internal Audit opinion to the Committee.

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 March 2017 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.

8 Annual Review of the Effectiveness of Internal Audit 2016/2017

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which provided members with the opportunity to comment of the Annual Review of the System of Internal Audit (for copy see file of Minutes).

Councillor Carr placed on record his congratulations to the officer for progressing in their IIA studies.

The Chairman commended the team for working very hard covering a lot of ground.

Resolved:
That the content of the report be noted.

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

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which provided the Chief Internal Auditor and Corporate Fund Manager's assurance opinion on the adequacy and effectiveness of the Council's internal control environment and presented the Annual Internal Audit Report for 2016/17 (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager confirmed that he had given a moderate overall assurance opinion for 2016/17. He added that performance was good and that policies and procedures were now in place to help deliver financial control within the authority. Internal Audit had also helped advise and support new managers to understand their role.

Mr Robinson asked what could be done to make the drive from the moderate opinion to a substantial one. The Chief Internal Auditor and Corporate Fraud Manager explained that the framework was there with policies and procedures in place but that new managers within the organisation needed training and support to make them understand their role. Mr Robinson went on to ask if there was anything that the Committee could do as he was concerned about people being in a position of responsibility and not operating in a way that should be expected. The

Corporate Director of Resources said that there is a clear message of what is expected and that has been rolled out to managers.

Councillor Carr asked if there was internal training for new managers and he was assured that this had been developed and rolled out within the organisation.

Mr Beavis commented that with austerity and all of the job cuts it placed more pressure on people as there was not always time and people could be taking short cuts. The Corporate Director of Resources said that the main issue was that of training. As far as savings were concerned the authority were looking at future service provision.

Councillor Davinson referred to limited assurances and in particular the decision about payments for adults living independently, and suggested that as more managers are on board about what is expected and by when, there should be less limited assurances given. The Chief Internal Auditor and Corporate Fraud Manager agreed that was what was planned for.

Mr Kirkham, Mazars agreed that it was right for members to seek assurances about the figures and the moderate opinion given. He advised that non-materiality was his responsibility and as such asked the Chief Internal Auditor and Corporate Fraud Manager if he had concerns about the numbers giving the level of assurance to the Audit Committee today. In particular, propriety, irregularities or the scale of numbers involved. The Chief Internal Auditor and Corporate Fraud Manager assured the Committee that he had no concerns.

Resolved:
That the content of the Annual Internal Audit Report and the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's Internal Control environment for 2016/17 be noted.

10 Compliance with International Auditing Standards

The Committee considered a report of the Chair of the Audit Committee which advised Members of a response that had been prepared relating to a letter sent from Mazars, the Council's external auditor, regarding compliance with International Auditing Standards (for copy see file of Minutes).

Resolved:
That the response be noted.

11 Draft Annual Governance Statement 2016 / 2017

The Committee considered a report of the Corporate Director, Resources, which sought approval of the draft Annual Governance Statement for 2016/17 (for copy see file of Minutes).

Resolved:
That the first draft of the Annual Governance Statement for 2016/17 be approved.

12 Statement of Accounts for the year ended 31 March 2017

The Committee considered a report of the Corporate Director, Resources which presented the Statement of Accounts for the year ended 31 March 2017 (for copy see file of Minutes).

The Finance Manager for Resources and Transformation and Partnerships reported that due to the change in legislation accounts would need to be closed down by 31 May next year. The Council had agreed to do a dry run this year and as such a lot of work had been undertaken by Council staff and External Audit to produce and sign off the accounts at the end off May 2017. The accounts were now out for consultation and available on the website. A further change in legislation now makes reference to a person with an interest in the accounts or a journalist can view the accounts. An updated notice has been advertised on the website.

Members were informed that External Audit had also carried out a dry run and they would come back to committee on 31 July 2017 where the statement of accounts would be considered for approval.

Mr Robinson asked for an explanation of the valuation on Durham County Cricket Club. He was advised that the deal was imminent and was therefore not signed when the accounts had been pulled together. Mr Robinson further asked if the £4m loan value would be recorded. He was advised that if the deal was agreed at the end of the week it would be put in the accounts as a disclosure. Mr Robinson was assured that once the deal had been made a full explanation of the future shareholder position would be explained.

Councillor Shuttleworth asked if the deal should be included as a corporate risk and was informed that once final negotiations had been agreed a view would be taken as to whether to include as a risk.

Councillor Temple referred to the Income and Expenditure column on page 187 of the papers and asked how the Committee could track what had happened as Adult and Health Services showed a £15m increase and Regeneration and Local Services had fallen and therefore there was no comparability. He was advised that an explanation of the comparability of the figures would be circulated including information to the Committee about the differences year on year.

Further to a question from Councillor Temple about unquoted equity of costs the Finance Manager said that he would report back about the difference of figures from 2015/16 to 2016/17.

Councillor Temple went on to ask about the earmarked reserves decreasing by £14m and the underspend of £11.8m. He asked if the large payment of £10m was a one-off payment. The Finance Manager explained that they would have budgeted for the pension fund. He advised that the £11m draw down happened at the start of the year when the budget was approved in February. The underspend at the end of the year was compared to quarter 3.

Referring to the schools reserve of £5m and the transfers to/from earmarked reserves table on page 228 of the papers, Councillor Temple said that he could not find this in the accounts. He commented that the current expenditure was well within budget and some services have more income than what they had budgeted for. The Corporate Director of Resources said that he would do a reconciliation and circulate for information.

The Corporate Director of Resources thanked staff for producing the accounts and for the diligent work with the tight timescales involved. He was assured that the Head of Corporate Finance and Commercial Services, the Finance Manager and his team had carried out a fantastic job.

Resolved:
That the statement of accounts for the County Council for the financial year ended 31 March 2017 be approved.

13 Internal Audit Strategy, Charter and Plan 2017/2018

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which outlined the Annual Internal Audit Plan for 2017/2018, Internal Audit Strategy and the Audit Charter (for copy see file of Minutes).

Resolved:-
(i) That the Internal Audit Strategy in Appendix 2, be approved;
(ii) That the revised Audit Charter in Appendix 3, be approved.
(iii) That the proposed Internal Audit Plan for 2017/2018, as detailed in Appendix 4, be approved;

14 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.

15 Protecting the Public Purse - Annual Report 2016/17

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which presented the Protecting the Public Purse Update Report for 2016/17 (for copy see file of Minutes).

The report provided an update on the following:

- The work of the Corporate Fraud Team.
- Action taken to raise awareness of the risk of fraud and corruption to assist in embedding a strong counter fraud culture throughout the organisation.
- Reported cases of potential fraud and irregularity reported during 2016/2017.
- Proactive Counter Fraud work completed.
- Progress on the Council's participation in the National Fraud Initiative (NFI) 2016/2017

- Fraud Reporting
- Fraud Training

Resolved:
That the contents of the Annual Protecting the Public Purse Update Report 2016/17 including:

- The work carried out by the Corporate Fraud Team.
- The actions taken to improve the awareness and the arrangements in place for managing the risk of fraud and corruption.
- Cases of potential internal corporate fraud and irregularity reported to internal audit and ongoing investigations.
- Corporate Fraud Team numbers and values of Fraud and Irregularity identified for 2016/17.
- Counter Fraud Action Plan 2017/18
- CIPFA Counter Fraud and Corruption Tracker Report for Durham County Council

be noted.

16 Internal Audit Progress Report for the quarter ended 31 March 2017

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 four audits finalised in the quarter that had been issued with a limited assurance opinion.

The Operations Manager, Digital and Customer Services gave assurances to Members about the work being carried out following a recent audits. The Asset Services Manager and Neighbourhood Protection Manager were also in attendance to give the Committee updates on outstanding actions.

Resolved:
That the report be noted.

Audit Committee

31 July 2017

2016/17 Final Outturn for the General Fund and Collection Fund

Report of John Hewitt, Corporate Director Resources

Purpose of the Report

1 To provide Audit Committee with details of the final outturn for the General Fund and Collection Fund for 2016/17.

Background

2 The 2016/17 unaudited Statement of Accounts includes a summary of the 2016/17 final financial outturn. The attached report presented to Cabinet on 12 July 2017 provides a more detailed review of the final outturn position for both revenue and capital and the Collection Fund.

Recommendation and reasons

3 Members are asked to note the 2016/17 final outturn position on the General Fund and Collection Fund.

Contact: Ian Herberson Tel: 03000 261861

Appendix 1: Implications

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

Staffing -

None

Risk -

None

Equality and Diversity -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Discrimination Act -

None

Legal Implications -

None

Cabinet

12 July 2017

2016/17 Final Outturn for the General Fund and Collection Fund

Report of Corporate Management Team

John Hewitt, Corporate Director of Resources

Councillor Alan Napier, Portfolio Holder for Finance

Purpose of the Report

1 To provide Cabinet with details of the revenue and capital outturn for the General Fund for 2016/17, and the 2016/17 outturn for the Collection Fund in respect of Council Tax collection and Business Rates collection.

Background

2 The financial outlook for the Council and the whole of local government remains extremely challenging. The Council has faced government funding reductions since 2010/11 and they will continue until at least 2019/20.

3 The Chancellor of the Exchequers Budget published on 8 March 2017 confirmed that austerity would continue until at least 2020/21. At this point the national budget will still have a £21 billion deficit. In addition the Government is still required to identify £3.5 billion of 'efficiency savings' from the 2019/20 budget. This raises the possibility that local government could face additional funding reductions in 2019/20 and beyond. By 31 March 2018, the Council will have delivered savings of £209 million since 2011.

4 The Chancellor of the Exchequers March Budget also announced additional financial support for social care. An additional £2 billion is available to local government over the three years 2017/18 to 2019/20. For Durham, the allocations for the next three years are £13 million, £8 million and £4 million respectively. Although the additional funding is welcome, the funding is one off in nature and cannot be invested on recurrent expenditure without creating further financial pressures in future MTFP's. The Council is required to work with Clinical Commissioning Groups (CCGs) in terms of investment plans.

5 On 24 February 2016, County Council agreed a net revenue budget of £401.515 million for 2016/17. Factoring in cuts in Government grant, inflation and other budget pressures the delivery of £36.847 million of savings was required in 2016/17 in order to deliver a balanced budget.

6 Quarterly forecast outturn reports have been considered by Cabinet throughout the 2016/17 financial year and detailed reports on individual Service Groupings have also been considered by the various Overview and Scrutiny Committees.

7 This final outturn for 2016/17 has been determined as part of the production of the Annual Statement of Accounts. During the process of finalising the Statement of Accounts, the Corporate Director of Resources will be required to make a number of technical decisions in the best financial interests of the Council. Such decisions will be fully disclosed in the Statement of Accounts.

General Fund Outturn

8 This section of the report details the following:

(a) cash limit outturn for service groupings;

(b) overall revenue outturn for the General Fund with summarised service grouping commentary;

(c) overall capital outturn of the General Fund with summarised service grouping commentary.

Cash Limit Outturn for Service Groupings

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

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

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

(i) items not controlled by the Service Groupings e.g. technical accounting entries such as Capital Charges and Central Administration Recharges actioned at year end;

(ii) exceptional items and expenditure pressures which were not accounted for in the Service Grouping base budget build and which are covered by contingencies or earmarked reserves held corporately e.g. redundancy and early access costs linked to restructuring activity to achieve Medium Term Financial Plan (MTFP) savings proposals.

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

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

10 After taking into account the above exclusions, through tight budgetary control by managers and robust delivery of financial savings targets, including the achievement of future years savings in advance, all Service Groupings have generated a cash limit underspend in 2016/17 with the exception of Children and Young People's Services. Further detail can be found in the Service Grouping commentary which begins at paragraph 20.

11 The 2016/17 cash limit position for each Service Grouping is detailed in the table below:

Type of Reserve	Opening Balance as at 1 April 2016	Budgeted use at 1 April 2016	Movement during 2016/17		Closing balance as at 31 March 2017
			Use of Reserve during 2016/17	Final Outturn	
	£m	£m	£m	£m	£m
Service Grouping Cash Limit					
Adult and Health Services	-2.336	0.000	1.570	-4.746	-5.512
Children and Young People's Services	-11.164	0.142	3.853	3.860	-3.309
Regeneration and Local Services	-6.371	0.000	2.899	-2.760	-6.232
Resources	-2.151	0.068	2.861	-1.801	-1.023
Transformation and Partnerships	-0.277	0.000	0.203	-0.105	-0.179
TOTAL CASH LIMIT RESERVE	**-22.299**	**0.210**	**11.386**	**-5.552**	**-16.255**

12 A fundamental review of all reserves has taken place which considered the pressures identified in the MTFP which need coverage and also the opportunity to reduce other Earmarked Reserves. As a result of this work the following reserves have been replenished:-

(a) MTFP ER/VR Redundancy Reserve (£4.812 million);

(b) Budget Support Reserve (£13.624 million);

(c) Equal Pay Reserve (£11.253 million).

13 A new Earmarked Reserve of £5 million has been created to recognise the financial challenges across the Council's schools.

14 The replenishment and creation of the Earmarked Reserves above amounting to £34.689 million were facilitated through the reduction in a number of other Earmarked Reserves (£22.969 million), and a transfer from the General Reserve (£12.000 million).

Revenue Outturn

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

	£m	£m
Gross Expenditure		1,435.311
Less:		
Gross Income		-1,019.409
Net Expenditure		**415.902**
Financed by:		
Council Tax	185.802	
Collection Fund Surplus	2.617	
Start Up Funding Assessment	193.021	
New Homes Bonus	10.449	
Section 31 Grant	4.400	
Education Services Grant	5.419	
Net use of Cash Limit Reserves	6.044	
Net Contribution to (-) / from Earmarked Reserves:		
Schools and DSG	5.272	
Non-Schools	-3.222	
Net Contribution from the General Reserve	6.100	
Total Financing		**415.902**

16 The final outturn position for 2016/17 was an underspend of £11.452 million and the table below details the transfer to reserves:

	£m
2016/17 Underspend transferred to General Reserve	-5.900
2016/17 Underspend transferred to Cash Limit Reserves	-5.542
Total 2016/17 Underspend	**-11.452**

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

	£m
Opening Balance as at 1 April 2016	-29.101
Add:	
2016/17 Underspend to General Reserve	-5.900
Less:	
Transfer to Earmarked Reserves	12.000
Closing General Reserve Balance as at 31 March 2017	**-23.001**

18 The General Reserve balance carried forward of £23.001 million is within the Council's General Reserves policy of retaining between 5% and 7.5% of the Net Budget Requirement, which in cash terms is between £19.38 million and £29.07 million. The £23.001 million balance at 31 March 2017 equates to 5.93% of the 2017/18 Net Budget Requirement. The main reasons why the General Reserve has decreased are detailed below:

(a) Interest and Investment income - £1.368 million more than budgeted;

(b) Section 31 Grant income - £0.133 million more than budgeted;

(c) Corporate Costs - £0.243 million less than budgeted;

(d) Sums Outside the Cash Limit - £0.993 million less than budgeted;

(e) Contingencies - £3.259 million less than budgeted offset by;

(f) Interest payable and similar charges - £0.156 million more than budgeted;

(g) A transfer of £12.000 million to Earmarked Reserves during the year.

19 The table below shows that in 2016/17 the total non schools reserves reduced from £234.476 million to £225.557 million. Appendix 4 details the movement on Earmarked Reserves during 2016/17.

Total Non School Reserves

	General Reserve	**Earmarked Reserves**	**Cash Limits**	**TOTAL**
	£m	**£m**	**£m**	**£m**
Opening Reserve Balances as at 1 April 2016	-29.101	-183.076	-22.299	-234.476
Contribution to (-) / from (+) Reserves	+6.100	-3.225	+6.044	+8.919
Reserve Balance as at 31 March 2017	**-23.001**	**-186.301**	**-16.255**	**-225.557**

Schools

	Schools Balances	Centrally Held DSG	TOTAL
	£m	**£m**	**£m**
Opening Schools Balances as at 1 April 2016	-24.083	-12.185	-36.268
Less contribution to (-) / from (+) Earmarked Reserves	+4.247	+1.025	+5.272
Schools Balance as at 31 March 2017	**-19.836**	**-11.160**	**-30.996**

Service Grouping Commentary

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

Adult and Health Services AHS)

21 The 2016/17 outturn for Adult and Health Services (AHS) was a cash limit under spend of £4.746 million, representing circa 2.9% of the total budget for AHS. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from the strategic reserve, year-end capital entries and contributions to and from earmarked reserves.

22 The cash limit outturn position compares to the previously forecast position of £4.511 million under budget, and therefore the actual outturn is broadly in line with the previously forecast position.

23 The outturn reflects the proactive management of activity by Heads of Service across AHS to remain within the cash limit and to prepare for 2017/18 MTFP savings requirements. The outturn position is accounted for as follows:

(a) 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 circa £4.6 million;

(b) net spend on adult care packages is £0.460 million over budget. This area of spend is being closely monitored to assess the impact of demographic and procedural/operational changes, where significant MTFP savings have been taken over recent years.

(d) a change in accounting treatment as a result of accelerating the final accounts process this year has contributed to a one off additional underspend for 2016/17 of circa £0.300 million.

(e) net expenditure in respect of Environment, Health and Consumer Protection (EHCP) services, previously reported under the former Neighbourhood Service's area, is £0.257 million under budget, resulting mainly from early achievement of future MTFP savings.

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

(a) £0.888 million relates to net use of cearmarked reserves to support specific projects:

(i) a net use of the Social Care Reserve of £1.409 million to fund social care activity;

(ii) a £0.538 million contribution to the Public Health reserves, to ensure that this ring fenced grant is retained for Public Health spending in future years;

(iii) a £0.017 million use of EHCP reserves.

(b) £1.946 million net use of reserves in relation to ER/VR costs and insurance recharges incurred in quarter 4.

25 Taking the outturn position into account, the cash limit reserve to be carried forward for Adult and Health Services is £5.512 million at 31 March 2017.

Children and Young People's Services (CYPS)

26 The 2016/17 outturn for Children and Young People's Services (CYPS) is a cash limit over spend of £3.860 million, representing circa 4.1% of the total budget for CYPS. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from the strategic reserve, year-end capital entries and contributions to and from earmarked reserves.

27 The cash limit outturn position compares to the previously forecast position of £3.544 million over spend, therefore the actual outturn is broadly in line with the previously forecast position.

28 In arriving at the cash limit outturn premises related costs associated with vacant former schools of £0.634 million have been treated as outside the cash limit.

29 The outturn position is accounted for as follows:

(a) The Education Service was £0.762 million under budget in the year. This relates to early achievement of MTFP savings, staff vacancies, reduction in pension liabilities and additional service level contract income. Changes to the Home to School transport policy took effect from September and the outturn position within the overall Education Service is a small £35,000 underspend for the year. Whilst there was an overspend on Post 16 students unable to travel independently due to Special Educational Needs and Disabilities (SEND) as a result of greater numbers of students eligible for hardship funding than provided

for, this was offset by an under spend across other areas of transport provision, partly due to better commissioning arrangements;

(b) Children's Services was £4.626 million 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:

(i) 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 (circa £1.384 million) 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 (circa £2.735 million). 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 circa £4.192 million;

(ii) the balance of the children's overspend relates to a combination of factors but of note is an employee overspend within 'Children protection & disability' and 'First contact & intervention' of £0.926 million staffing due to increased costs associated with agency staff covering vacancies and absences required to maintain safe service levels. This additional cost is partially mitigated by employee underspends elsewhere in the service due to vacancies and savings relating to premises.

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

(a) £0.304 million relates to net use of contributions to and from earmarked reserves and cash limits to support specific projects in future years, including:

(i) a (£0.200) million use of the Continuous Professional Development reserve in quarter 4 against contribution to reserves of £0.185 million in earlier quarters, resulting in a use of £0.015 million in the year;

(ii) a £0.541 million contribution to the various Education trading account reserves in quarter 4 in addition to use of £0.150 million in earlier quarters, resulting in a net contribution of £0.391 million in the year;

(iii) (£0.156) million transferred from the Tackling Troubled Families reserve to fund additional activity related to Stronger Families;

(iv) £0.130 million contribution to the Aycliffe Secure reserve was made in quarter 4 leading to a total use of reserves of £0.074 million in the year;

(v) a (£0.619) million use of the Social Care Reserve.

(b) £0.595 million net contribution to reserves in relation to ER/VR costs and insurance recharges.

31 Taking the outturn position into account, the cash limit reserve to be carried forward for Children and Young People's Services is £3.309 million at 31 March 2017, which reflects the disaggregation of the cash limit formerly held for Children and Adult Services based on the controllable budget.

Dedicated Schools Grant

32 The Dedicated Schools Grant (DSG) allocation for 2016/17 was £358.8 million, however due to schools converting to academies and reduction in high needs DSG allocations for payments made direct by the Education Funding Agency the budget was reduced by £80.516 million in year to £278.284 million. A further reduction of £0.299 million was confirmed in relation to an Early Years adjustment for the previous financial year resulting in a final receipt of DSG for 2016/17 of £277.985 million. This includes both the delegated schools budget and the centrally retained DSG budget.

33 The total revised delegated budget for maintained schools (including early years' providers and excluding centrally retained DSG) was £260.138 million.

34 Where schools spent more or less than their delegated budgets, the difference either reduces or increases their accumulated balance. Schools-related balances were £19.754 million at 31 March 2017, a reduction of £4.329 million in year. The changes in balances were as follows:

	31 March 2016 £	**Movement £**	**31 March 2017 £**
Schools balances	(23,879,764)	4,365,866	(19,513,898)
Communities of Learning	(393,825)	9,543	(384,282)
Loans to schools	190,878	(128,058)	62,820
Total	**(24,082,711**	**4,247,351**	**(19,835,360)**

35 The Quarter 3 forecast of outturn indicated that school balances would reduce to £13.793 million by 31 March 2017. The outturn position was £5.721 million higher than previously forecast, with most schools ending the year with a higher balance than the Q3 forecast, which was based on budget plans prepared by each of the schools.

36 There are 237 maintained schools, of which 164 ended the year with a higher balance than the Q3 forecast suggested, with balances being £6.921 million higher than previously forecast. There were 73 schools where the balance was less than the Q3 forecast suggested, with spending being £1.282 million higher than was previously forecast.

37 At 31 March 2017 there were 16 schools with a deficit balance, with a total accumulated deficit of £4.161 million. This compares with the position at 31 March 2016, when there were 10 schools in deficit, with an aggregate deficit of £2.736 million.

38 Three of the schools in deficit at 31 March 2017 are secondary schools, with combined deficits of £3.717 million. The combined accumulated deficit for these three schools was £2.586 million at 31 March 2016. As previously reported, there are concerns about the long-term financial viability of these schools and officers from Children and Young Peoples Services and Resources are in discussion with these schools about ways to improve their financial position for the longer term. The other 13 schools have deficits totalling £0.444 million and officers will work with these schools to ensure that they recover these deficits in 2017/18.

39 The overall outturn position for the centrally retained element of the DSG shows an over spend of £1.026 million in year. The pressure area for the centrally controlled element of the DSG in 2016/17 was High Needs top-up funding and Early Years (£2.129 million). This was offset by under spends in the Education Service teams dealing SEND children and school improvement of £1.103 million.

40 The earmarked reserve relating to centrally retained DSG carried forward at 31 March 2017 is £11.160 million, compared to the £12.185 million at 31 March 2016. In terms of the balance carried forward, £1.565 million is earmarked for Schools relating to the Growth Fund, School Improvement and unallocated formula funding; £0.284 million has been used to set schools budgets in 2017/18; £3.245 million is earmarked across Early Years provision, Schools Redundancy, Capital schemes and post 16 High Needs and the balance of £6.065 million will support continuing High Needs pressures in 2017/18 and beyond.

Regeneration and Local Services

41 The 2016/17 outturn for Regeneration and Local Services is a cash limit underspend of £2.760 million. This takes into account adjustments for sums outside the cash limit such as redundancy costs that are met from corporate reserves, year-end capital accounting entries and use of / contributions to earmarked reserves.

42 The cash limit outturn position compares to the previously forecast Quarter 3 position of a cash limit underspend of £1.897 million.

43 The underspend reflects the proactive management of activity by Heads of Service across Regeneration and Local Services to bring spend within the cash limit and to prepare for 2017/18 MTFP savings requirements. The main reasons accounting for the outturn position are as follows:

(a) Strategy, Programmes and Performance was £0.215 million underspent, mainly on salary costs due to vacancies and reduced working hours;

(b) Economic Development and Housing was £0.684 million underspent, primarily due to early achievement of MTFP savings in the housing solutions service, additional rental income in the Gypsy Roma Traveller Service and additional grant income received in year;

(c) Planning and Assets was £0.614 million underspent, resulting from an overachievement of planning fee income, savings from vacant posts and other efficiency savings on running costs offset by increased costs associated with the County Durham Plan;

(d) Transport was £84,000 underspent, comprising a planned underspend on employee costs linked to early achievement of MTFP savings and additional income in Care Connect;

(e) Direct Services was £61,000 underspent, which was the net effect of increased income relating to Trade and Bulky Waste (£0.340 million) offset by short term planned overspends due to the re-organisation of refuse collection rounds and new trade waste bin purchases (£0.190 million), along with unachieved 2016/17 MTFP savings relating to Fleet (£89,000), which were delayed until 2017/18;

(f) Technical Services was £59,000 overspent. This is the net position and takes into account additional expenditure of £0.630 million within Highway Services relating to highways maintenance, mainly in relation to Category 1 and 2 defects and footway maintenance. The additional costs were however offset by additional surpluses generated within Design Services (£0.227 million) and savings on employees and premises costs in Strategic Highways (£0.351 million);

(g) Culture & Sport was £0.132 million underspent, relating mainly to modest savings in leisure and library facilities across a range of budget heads;

(h) Projects & Business Services was £1.030 million underspent. This is the net position and takes into account savings achieved within Strategic Waste of £0.160 million, within Business Support of £0.222 million, Customer Services of £0.296 million and Policy & Performance of £0.056 million, which are all mainly due to the early achievement of MTFP savings. Within Strategic Waste there was a modest overspend on the Waste Contracts of £0.125 million offset by underspends on Garden Waste of £0.310 million.

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

(a) £2.345 million – relating to a net contribution to earmarked reserves and cash limit reserves to support specific projects in 2017/18. This includes:

(i) £1.179 million contribution relating to Economic Development and Housing;

(ii) £0.561 million contribution in respect of Planning and Assets;

(iii) £0.452 million contribution to earmarked reserves to support one off expenditure in Highways;

(iv) £0.505 million contribution to earmarked reserves in respect of Culture and Sport;

(v) £0.454 million drawdown from earmarked reserves in respect of Buildings and Grounds Maintenance, and Street Cleaning;

(vi) £70,000 contribution to earmarked reserves for Customer Services.

(b) The movement on Reserves includes a contribution of £0.521 million to the Winter Maintenance Reserve that was established at the end of 2013/14. This contribution represents the additional underspend experienced in the service since the Quarter 3 forecast was prepared, reflecting the relatively mild conditions that were experienced during the last winter. The Winter Maintenance Reserve now stands at £3.925 million and is available to be drawn down when severe winter or weather events occur and the annual budget is insufficient to meet the unavoidable costs in this area in that year.

(c) £1.447 million net contribution to reserves in relation to ER/VR costs, equal pay and Insurance costs.

(d) £23.648 million relates to a range of adjustments with the major component relating to capital charges.

45 Taking the outturn position into account, the Cash Limit Reserve to be carried forward for Regeneration and Local Services is £6.232 million.

Resources

46 The 2016/17 outturn for Resources was a cash limit underspend of £1.801 million. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year end capital accounting entries and use of / contributions to earmarked reserves.

47 The cash limit outturn position compares to the previously forecast position at quarter 3 of a cash limit underspend position of £1.529 million.

48 The underspend reflects the proactive management of activity by Heads of Service across Resources throughout the year to remain within the cash limit and to prepare for 2017/18 MTFP savings requirements. The outturn position is accounted for as follows:

(a) Corporate Finance and HR was underspent by £0.298 million. Of this, £0.172 million relates to the early achievement of future years' MTFP

savings, of which £0.154 million relates to employees' costs through vacancy management in year. The remaining £0.126 million underbudget was a managed position, that included overachieved income of £0.132 million offset by net underspending across other budget headings;

(b) Financial and HR Services was underspent by £0.773 million. Of this, £0.727 million relates to the early achievement of future years' MTFP savings, mostly from employees' costs through vacancy management in year. The remaining £46,000 underspend relates to overachieved income of £37,000 and other budget savings of £39,000 being partly offset by an overspend of £30,000 on supplies and services and transport;

(c) ICT Services returned a balanced position against the budget, where a reduction in schools trading income compared to 2015/16 was accompanied by a reduction in the costs of supplies and services used to supply the service. The surplus and deficit on traded activity within ICT is transferred to the earmarked Trading Account Reserve at year end;

(d) Internal Audit was underspent by £84,000, reflecting the early achievement of future years MTFP savings, through a managed underspend on employees of £63,000 and increased income of £24,000, partially offset by an overspend on supplies and services of £3,000;

(e) Legal and Democratic Services was underspent by £0.649 million, including managed underspends on employees of £0.141 million, premises related expenditure of £36,000, transport (£60,000) and supplies and services of £0.239 million, plus overachieved income totalling £0.173 million. These managed underspends are related to future year's MTFP savings delivered early and an improved income position in respect of the Registrars Service.

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

(a) £0.439 million – relates to the net position for contributions to and from earmarked reserves and cash limits to support specific projects in 2016/17. The main contributions to reserves are £0.485 million to the Corporate Procurement Reserve, £0.182 million to the Welfare Assistance Funding Reserve, £0.158 million to the Welfare Rights Reserve, £0.114 million to the ICT Trading Account Reserve and £0.100 million to the Revenues and Benefits Reserve. There is also a contribution of £0.794 million from the corporate reserve for redundancies incurred as part of MTFP savings plans.

(b) £0.684 million – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration recharges.

50 Taking the outturn position into account, including items outside the cash limit and transfers to and from earmarked reserves, the cash limit reserve to be carried forward for Resources is £1.023 million.

Transformation and Partnerships (T&P)

51 The 2016/17 outturn for the Transformation and Partnerships (T&P) Service was a cash limit underspend of £105,000. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year-end capital accounting entries and use of / contributions to earmarked reserves.

52 The cash limit position compares to the previously forecast position at quarter 3 of a cash limit underspend of £87,000, therefore the actual outturn is broadly in line with the previous forecast position.

53 The outturn underspend is a managed position, reflecting the proactive management of activity by Heads of Service across T&P throughout the year to remain within the cash limit and to prepare for 2017/18 MTFP savings requirements. The outturn position is accounted for as follows:

(a) Partnerships and Community Engagement was £88,000 underspent in year, primarily due to an underspend on supplies and services costs and an over recovery of income;

(b) Planning and Performance was £11,000 overspent, primarily in employee costs through not meeting the 3% staff turnover target;

(c) Policy and Communications was £28,000 underspent, predominantly relating to an underspend on supplies and service across the service.

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

(a) £0.379 million – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2017/18. The main contributions are £0.224 million from the AAP Reserve, £0.166 million from the Members Neighborhood's Revenues Reserve and £0.102 million from the Members Initiative Fund Reserve to support projects in the community. There is also a contribution of £0.116 million to the Syrian Resettlement Refugee Reserve;

(b) £2.387 million – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration.

55 Taking the outturn position into account, including items outside the cash limit, transfers to and from earmarked reserves, the cash limit reserve to be carried forward for T&P is £0.179 million.

Resources - Centrally Allocated Costs (Corporate Costs)

56 The 2016/17 outturn for Resources – Centrally Administered Costs is a cash limit underspend of £0.243 million. This takes into account adjustments for sums outside the cash limit such as the use of / contribution to earmarked reserves.

57 The cash limit outturn position compares to the previously forecast position at Quarter 3 of a cash limit underspend of £0.202 million.

58 The outturn position reflects underspends on external audit fees (£19,000), expenses associated with raising loans (£34,000), payment card charges (£73,000), subscriptions (£59,000), an over recovery of income (£50,000) and other variances (£8,000).

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

(a) £0.743 million – relates to contributions to and from earmarked reserves including £0.555 million from the Equal Pay Reserve, £0.239 million from the Insurance Reserve £51,000 to the Welfare Assistance Reserve;

(b) £0.173 million – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration.

Central Budgets

Interest and Investment Income

60 There has been an overachievement of investment income of £1.368 million which is mainly due to the higher than anticipated cash balances. This is due in the main to capital expenditure being below base budget levels and generally higher than forecast cash balances. The budget was increased by £2.640 million in year due to receipt of a special dividend arising from the refinancing of Newcastle Airport. The MTFP(7) report to Council on 22 February 2017 approved the utilisation of this funding to support the capital programme. The sum was therefore applied in 2016/17.

2016/17 Capital Outturn

General Fund Capital Programme

61 The original General Fund (GF) 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 £126.090 million. This was agreed by Cabinet on 13 July 2016.

62 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.

63 The following table summarises the revised capital budgets, taking into account revisions considered by MOWG and agreed by Cabinet throughout the year, together with the outturn position for each service area. The table also details the action that has been taken with regard to re-profiling and other budget adjustments at year end, which were reported to MOWG on 23 May 2017.

General Fund Capital Programme 2016/17

Service Grouping	Original Budget 2016/17	Revised Budget 2016/17	Outturn 2016/17	Variance	Additions / Deletions From Budget	Reprofiling
	£m	£m	£m	£m	£m	£m
Transformation and Partnerships	5.622	4.042	2.497	1.545	0.092	-0.961
Adult and Health Services	1.035	0.896	0.633	0.263	-	0.208
Children and Young People's Services	29.854	24.901	21.499	3.402	3.645	-7.557
Regeneration and Local Services	77.711	78.811	78.656	0.155	0.481	-1.272
Resources	11.868	4.179	3.856	0.323	5.470	-5.793
TOTAL	**126.090**	**112.829**	**107.141**	**5.688**	**9.688**	**-15.375**

64 In addition to underspends requested to be carried forward into 2016/17 to fund the completion of capital schemes, the variances in the table above also include some overspends on projects that span multiple financial years, which resulted from acceleration of project delivery timescales. In such instances the 2017/18 budgets have been reduced to offset the increased activity in 2016/17. All re-profiling has now been included in the updated capital budgets for 2016/17 – 2019/20.

65 The Capital Programme is financed via various funding sources including grants, capital receipts, revenue contributions, contributions from reserves and borrowing. The financing of the 2016/17 Outturn is detailed in the following table:

Financing – General Fund Capital Programme 2016/17

Financed by	2016/17 Outturn £m
Grants and Contributions	47.150
Revenue & Reserves	20.398
Capital Receipts	7.649
Borrowing	31.944
Total	**107.141**

Service Grouping Commentary

66 The primary reasons for the net capital underspending of £5.688 million (circa 5% under budget at year end) are set out below:

Transformation and Partnerships (T&P)

67 The underspend of £1.545 million within T&P is mainly due to:

(a) **Members Budgets –** underspend £1.259 million.

Elected Members are encouraged to invest their annual allocation within each financial year. Current guidance states that uncommitted funds may be carried forward but not beyond an elected Member's term of office. All the £1.259 million was committed in 2016/17 and the schemes will be completed in 2017/18.

(b) **Community Facilities in Crook -** underspend £0.344 million.

Ongoing discussions regarding the transfer of trust land through the Charities Commission delayed the start of the project and the issue of the offer letter, including the terms and conditions, to Crook Community Leisure.

(c) **Budgets Brought Forward from 2017/18** - £58,264.

A number of budgets within this Service have been brought forward to fund expenditure incurred in 2016/17.

Adult and Health Services (AHS)

68 The underspend of £0.263 million for AHS is mainly due to:

(a) **ICT Budgets**

Relates mainly to the fact that a number of ICT schemes have not been completed in 2016/17. These are the Poppie Data project (£32,057), which is to be completed in 2017/18 and the Planning Systems Development and Service Strategy project (£155,558). In addition, the Broadband Width Connectivity – 0-19 Public Health Contract project (£71,000) has been deferred until 2017/18.

Children and Young People's Services (CYPS)

69 The underspend of £3.402 million for CYPS is mainly due to:

(a) **School Related –** underspend £1.260 million.

Mainly due to the delay between when budgets are allocated to schemes as they are commissioned and when the schemes are completed in major school holidays to minimise disruption.

(b) **Devolved Formula Capital –** underspend £2.260 million.

Work has been delayed awaiting individual schools to finalise capital investment plans.

(c) **Secure Services –** net overspend £47,566.

The overspend relates to additional work being carried on the secure units due to the late allocation of grant funding from the DfE.

Regeneration and Local Services (REAL)

70 The underspend of £0.155 million is primarily due to a combination of under and over spending within the service area as follows:

(a) **Economic Development & Housing** – overspend £1.914 million.

The main reason is the acceleration of works in respect of Disabled Facilities Grants and the issue of Home Loans to the value of £1.168million along with work on the Netpark 3 project of £0.848million.

(b) **Planning and Assets** – underspend £1.172 million.

Relates mainly to the Structural Capitalised Maintenance Programme being underspent by £0.708 million. This was due to the protracted discussions regarding the detailed design work for the Comeleon House project, work at the Louisa Centre was delayed whilst awaiting permission from the Coal Board and two roofing projects were delayed due to the weather. The School Demolition Programme was underspent by £0.176 million due to delays in obtaining DfE approval. The Energy and Efficiency programme was also underspent by £0.233million due to programming the work with the relevant third partie. The underspends have been reprofiled into 2017/18 for completion.

(c) **Transport and Contracted Services** – overspend £2.696 million.

Primarily due the accelerated work on Forrest Park project, £2.388 million for which NECA funding is available.

(b) **Strategy, Programmes and Performance** – underspend £0.104 million.

This contingency budget has been carried forward into the new financial year 2017/18.

(c) **Direct Services** – underspend £1.248 million.

A number of schemes within this service area were underspent and include £52,205 for the Upgrade to the Locomotion Café and Kitchen due to ongoing discussions regarding the design of the front of house seating. The Play Area budget was underspent by £0.522 million due to final invoices not received from contractors. The budget for the Refurbishment of Mountsett Crematorium was underspent by £0.201 million and was mainly due to the fact the external contractor did not claim the bond for the project. Other underspends include the Environmental Improvement project £0.157million and the Bereavement Improvement project £0.155 million.

(d) **Culture and Sport –** underspend £0.794 million.

The underspend within this service area is mainly due the delay in obtaining DfE approval for the upgrading of the changing facilities at Roseberry and Blackfyne £0.441 million and the fact that additional works were requested during the year for the Newton Aycliffe CAP project £0.317 million.

(e) **Project and Business –** underspend £0.710 million.

Primarily due to the underspend of £0.358 million for the CRM system as the go live date was initially delayed by the implementation partner. The underspend of £0.248 million on a number of Waste Management schemes was due to awaiting agreement on the contract price for the Stainton Grove project as well as issues relating to the design work for the Thornley Waste Transfer Station project.

(f) **Technical Services –** underspend £0.735 million.

The outturn is due to a combination of under and over spending on the major areas within the service. Accelerated work led to overspending in the following areas: Street Lighting Reduction Energy Programme £0.671 million, Footways £0.133 million, Street Lighting £0.124 million and Drainage £0.141 million. The Traffic and Community Engagement schemes were underspent by £0.158 million and the Highways Maintenance project by £1.204 million.

Resources

71 Once again, the underspend of £0.323 million is a result of under and overspending of the main areas within the service:

(a) **Migration of HR / Payroll System to Oracle –** underspend £0.511 million.

The project was underspent due to the decision not to migrate to Oracle. The budget has been carried forward into 2017/18 to fund the new HR/Payroll system, which is currently out to procurement.

(b) **Digital Durham Contract 2 –** overspend £0.876 million.

Funding is available to finance the expenditure from a combination of BDUK grant and contributions from local authority partners, including the Council.

(c) **ICT Projects**

The remaining underspend relates to various ICT projects which have been delayed due to either take advantage of the current market pricing or where the supplier has advised DCC to proceed with an alternative option of procurement.

Capital Receipts

72 Income from the sale of assets and other capital income streams (capital receipts) are utilised to support the capital budget. The 2016/17 budget for income from capital receipts was £8.728 million. The final outturn position is shown in the following table:

Source	Sum Received 2016/17
	£m
Land Sales	2.596
Land Sales via Durham Villages Regeneration Limited	1.704
VAT Shelter – Livin	0.550
VAT Shelter – Derwentside Homes	0.230
VAT Shelter – Teesdale	0.029
VAT Shelter – County Durham Housing Group	1.746
Preserved 'Right to Buy' Sales	0.761
Vehicle Sales	0.032
TOTAL	**7.648**
Less: Income Budget	8.728
Underachievement of Capital Receipts	**-1.080**

73 One of the main reasons for the underachievement on capital receipts in 2016/17 related to the planned sale of land at Queen Street in Crook. A capital receipt of £1.2 million was expected in 2016/17 but only the deposit of £60,000 was received, with the balance to be paid in 2017/18.

Council Tax and Business Rates Collection Funds

Council Tax

74 Council Tax is charged for all residential dwellings in bandings agreed by the Valuation Office Agency, which is part of Her Majesty's Revenues and Customs (HMRC). Exemptions, reliefs and discounts are awarded dependent upon the state of the property, its use and occupiers' personal circumstances.

75 The collection rate at 31 March 2017 was 96.69% and whilst this demonstrates an improvement of 0.39% on 2015/16 this is slightly below the target of 96.80%. This has been achieved through continued automation of the 2016/17 recovery schedule used to target non-payers, e-enablement of processes and availability of a wide range of payment methods.

76 The in-year collection rates at 31 March for the last three years, including the current year, are shown below:

Billing Year	Position at 31 March Each Year %
2016/17	96.69
2015/16	96.30
2014/15	95.80

77 The current overall collection rate for 2015/16 council tax liabilities is now 98.09%, and for 2014/15 the rate is now 98.48%. The Council continues to recover Council Tax from earlier years and currently, the collection rate for all years excluding the current year is 99.62% which is line with our medium term financial plan forecasts.

78 The income shown in the Council Tax Collection Fund is the amount collectable from Council Tax payers in the long run, rather than the actual cash collected in the year the charges are raised. Likely bad debts are accounted for by maintaining a bad debt provision. The amount estimated to be collectable is estimated each year by reference to the actual council taxbase for all domestic properties in the county (schedule of all properties, discounts and reliefs) with an allowance for non-collection, currently 1.5%.

79 Due to changes in the number of properties (including new build and demolitions), eligibility of discounts and reliefs during the year, the actual amount collectable increases or decreases from the estimate on a dynamic day to day basis. In addition, adjustments for previous billing years take place during each accounting year. All of these adjustments mean that the actual amounts collected will always differ from the estimate.

80 Such differences at the end of each accounting year, after taking into account the calculated change required in the ‘bad debt’ provision, determines whether a surplus or deficit has arisen, which is then shared proportionately between the Council and its major preceptors, being Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue Authority.

81 At 31 March 2017, the outturn for the Council Tax Collection Fund is a surplus of £5.029 million as shown in the table below. Durham County Council’s share of this forecasted surplus is £4.231 million.

	£ million
Net Bills issued during Accounting Year 2016/17	290.535
LCTRS and previous years CTB adjustments	-51.74
Calculated change in provision for bad debts required and write offs	-1.664
Net income receivable (a)	**237.131**
Precepts and Demands	
Durham County Council	185.798
Parish and Town Councils	11.513
Durham Police and Crime Commissioner	22.219
County Durham and Darlington Fire and Rescue Authority	12.822
Total Precepts and Demands (b)	**232.352**
Net Surplus / (-) Deficit for year (a) – (b)	**4.779**
Surplus Brought Forward from 2015/16	**0.250**
Estimated Year end surplus	**5.029**

82 At 15 January in each year, the estimated surplus/deficit on the Collection Fund Council Tax Account is notified to the two major preceptors for inclusion in the budget setting process for the following year as an additional income or expenditure item.

83 At 15 January 2017 an estimated year end position on the Council Tax Collection Fund for 2016/17 was declared and taken into account in the budget setting process for 2017/18. The difference between this and the actual surplus at 31 March 2017 will be carried forward to 15 January 2018 and will be taken into account in estimating the surplus/deficit for 2017/18, which will need to be taken into account for 2018/19 budget setting. A reduction in bad debt requirement and write offs has led to a higher than anticipated surplus at the year end, this has been achieved largely due to a more proactive and supportive approach and additional enforcement actions towards debt collection.

84 Over the past four years, the Council Tax provision for bad debts has been increasing steadily. This has reflected concerns in relation to collection during the recession and also at a time when the Council became responsible for Local Council Tax Support. The position has now been reached where the provision is deemed to be at a prudent level which allows consideration to be given to the declaration of a surplus.

Business Rates

85 2013/14 was the first year of the new Business Rates Retention Scheme whereby the Council has a vested budget interest and stake in the level of business rate yield, as income generated from Business Rates is now shared between Central Government (50%), Durham County Council (49%) and County Durham and Darlington Fire and Rescue Authority (1%). Therefore, it is not only the accuracy and timeliness of bills levied and collected that is

monitored and audited, but the level of income anticipated for the year is important and new monitoring procedures have been devised for this purpose.

86 Bills raised, exemptions and reliefs awarded are examined together with local knowledge of anticipated changes in reliefs such as Mandatory Charitable Relief and Discretionary Rate Relief on a monthly basis to enable a comparison with the January 2016 estimate of 2016/17 Business Rates income that was used for budget setting purposes. At 31 March 2017, the outturn for the Collection Fund Business Rates is a surplus of £3.706 million, arrived at as shown in the table below, which takes into account the undeclared deficit as at 31 March 2016.

	£ million
Net rate yield for 2016/17 including previous year adjustments	118.186
Estimate of changes due to appeals lodged and future appeals	0.046
Estimated losses in Collection – Provision for Bad Debts and Write-offs	-0.992
Net income receivable (a)	**117.240**
Agreed allocated shares	
Central Government (50%)	55.918
Durham County Council (49%)	54.800
County Durham and Darlington Fire and Rescue Authority (1%)	1.118
Cost of Collection Allowance and Renewable Energy (paid to Durham County Council)	0.700
Total fixed payments (b)	**112.536**
Net surplus for year (a) – (b)	**4.704**
Undeclared Deficit brought forward from 2015/16	**-0.998**
Estimated year end Surplus	**3.706**

87 The in-year surplus of £4.704 million is offset by the total undeclared deficit brought forward from 2015/16, leaving a surplus of £3.706 million at 31 March 2017. Any surpluses or deficits at 31 March in any year are shared proportionately between Durham County Council, Central Government and County Durham and Darlington Fire and Rescue, Durham County Council's share being 49%. Durham County Council's share of the year end surplus will therefore be £1.816 million. A reduction in bad debt requirement has led to a higher than anticipated surplus at the year end, this has been achieved largely due to a more proactive and supportive approach and additional enforcement actions towards debt collection. The provision for appeals was also lower than anticipated due to the increase in settlements of appeals, late in the financial year.

88 The payment profile on collection performance is changing due to more businesses opting to spread their payments over 12 months rather than ten. The major Business Rates Payers have all opted to take up this opportunity to re-profile their cash flow. However, robust collection procedures have enabled the setting of a challenging collection rate target of 97.50% at 31 March 2017.

89 The in-year collection rates at 31 March for the last three years, including the current year, are shown below:

Billing year	Position at 31 March Each Year %
2016/17	97.78
2015/16	97.40
2014/15	97.20

90 The 97.78% collection rate is above the target by 0.28 percentage points.

91 The current overall collection rate for 2015/16 business rate liabilities is now 98.92% and for 2014/15 business rate liabilities is now 99.44%. The Council continues to recover Business Rates from earlier years and currently, the collection rate for all years excluding the current year is 99.28% which is line with our medium term financial plan forecasts.

Section 31 Grant - Small Business Rate Relief

92 Small Business Ratepayers with properties with rateable values under £12,000 benefit from relief on their rates payable. The Government has awarded local authorities a special ‘Section 31’ grant to cover their share of the shortfall in business rates that these small business ratepayers would have paid had the relief scheme not been in place.

93 Small Business Ratepayers with properties with rateable values up to £6,000 are currently being granted full relief instead of 50% relief under the previous scheme, and properties with rateable values between £6,000 and £12,000 have a tapered relief applied to them ranging from 100% down to 0%, but in all cases double the standard relief.

94 The Section 31 grant has been calculated as 50% of the extended small business rate relief awarded.

95 The Government has only agreed to pay Section 31 grant for the additional Small Business Rate Relief in respect of business rates bills and adjustments thereof relating to the period commencing 1 April 2013. Any adjustments that relate to bills for years prior to this will be dealt with as part of the normal Rate Retention shares. At 31 March 2017, the gross Small Business Relief awarded against 2016/17 Business Rates bills and adjustments to 2015/16, 2014/15 and 2013/14 bills is £10.376 million, and on this the Council will receive £2.579 million in Section 31 Grant, including the capping adjustment.

Other Section 31 Grants

96 In the Autumn Statement 2013, 2014 and 2015, additional Business Rate Reliefs were announced for 2014/15, 2015/16 and 2016/17 for which Section 31 Grants would be payable. These included one for properties empty from new, reoccupation of long-term empty properties and an additional relief for small shops. Durham County Council will be recompensed for any retained rates foregone because of reliefs given.

97 When assessing estimated outturn income from Business Rates, due regard must also be given on the effect that changes in estimated reliefs will have on the Section 31 grants. At 31 March 2017, the increase in Durham County Council's Section 31 Grants (including Small Business Rate Relief) was £132,665.

98 Whilst the increase in S31 grants is accounted for in 2016/17, the surplus on Business Rates retention is accounted for in 2017/18.

Recommendations and Reasons

99 It is recommended that Cabinet note:

(a) the reduction in the Cash Limit Reserves of £6.044 million during 2016/17 with closing Cash Limit Reserves of £16.255 million. These sums will continue be held as Earmarked Reserves and be available for Service Groupings to manage their budgets effectively;

(b) the closing General Reserve balance of £23.001 million;

(c) the closing balance on General Fund Earmarked Reserves (excluding Cash Limit Reserves) is £186.301 million;

(d) the closing balance on Schools Reserves is £30.996 million;

(e) the position for the Collection Funds in respect of Council Tax and Business Rates.

100 It is recommended that Cabinet approve:

(a) the capital budget carried forward of £15.375 million for the General Fund is moved into 2017/18, offset by reductions in the 2017/18 programme to fund accelerated spending in 2016/17 and that service groupings regularly review capital profiles throughout 2017/18 reporting revisions to MOWG and Cabinet as necessary.

Background Papers

- Cabinet – 14 September 2016 – Forecast of Revenue and Capital Outturn 2016/17 – Period to 30 June 2016.
- Cabinet – 16 November 2016 - Forecast of Revenue and Capital Outturn 2016/17 – Period to 30 September 2016.
- Cabinet – 15 March 2017 - Forecast of Revenue and Capital Outturn 2016/17 – Period to 31 December 2016.

Contact:	**Jeff Garfoot**	**Tel:**	**03000 261946**
	Paul Darby	**Tel:**	**03000 261930**

Appendix 1: Implications

Finance - The report details the financial outturn for the Council for 2016/17 for Revenue and Capital. The report covers General Fund for both Revenue and Capital and the outturn position for General and Earmarked Reserves at 31 March 2017, plus the Collection Fund outturn, covering both Council Tax and Business Rates.

Staffing - None.

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

Equality and Diversity / Public Sector Equality Duty - None.

Accommodation - None.

Crime and Disorder - None.

Human Rights - None.

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

Procurement - None.

Disability Issues - None.

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

Appendix 2: General Fund Revenue Summary 2016/17

	Original Budget 2016/17	Revised Budget	Service Groupings Final Outturn	Variance	Cash Limit Adjustments: Sums Outside the cash limit	Cash Limit Adjustments: Cash Limit Reserve	Cash Limit Adjustments: Contribution to / Use of Earmarked Reserves	Final Outturn
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adult and Health Services	158,665	161,409	159,084	-2,325	413	0	-2,834	-4,746
Children and Young People's Services	96,429	106,755	118,608	11,853	-14,836	0	6,843	3,860
Regeneration and Local Services	125,882	131,871	101,669	-30,202	23,648	152	3,642	-2,760
Resources	16,282	18,187	16,631	-1,556	-684	15	424	-1,801
Transformation and Partnerships	9,448	10,660	13,321	2,661	-2,387	-14	-365	-105
Cash Limit Position	406,706	428,882	409,313	-19,569	6,154	153	7,710	-5,552
Contingencies	6,194	3,259	0	-3,259			0	-3,259
Centrally Held Budgets	0	0	-1,572	-1,572	1,572	0	0	0
Corporate Costs	4,235	4,374	4,701	327	173	0	-743	-243
NET COST OF SERVICES	417,135	436,515	412,442	-24,073	7,899	153	6,967	-9,054
Capital charges	-55,478	-55,478	-64,144	-8,666	-3,751			-12,417
Gain/Loss on Disposal	0	0	12,417	12,417				12,417
Interest and Investment income	-1,641	-4,381	-5,749	-1,368				-1,368
Interest payable and similar charges	37,401	42,146	41,852	-294			450	156
HR Accrual	0	0	3,155	3,155	-3,155			0
Levies	15,929	15,929	15,929	0				0
Net Expenditure	413,346	434,731	415,902	-18,829	993	153	7,417	-10,266
Funded By:								
Council tax	-185,798	-185,798	-185,802	-4				-4
Use of (-) / contribution to earmarked reserves	-11,621	-26,372	-2,050	24,322			16,905	41,227
Estimated net surplus on Collection Fund	-2,617	-2,617	-2,617	0				0
Start up Funding Assessment	-192,977	-192,977	-193,021	-44				-44
New Homes Bonus	-10,182	-10,182	-10,182	0				0
New Homes Bonus - Re-imbursement	-267	-267	-267	0				0
Section 31 Grant	-4,267	-4,267	-4,400	-133				-133
Education Services Grant	-5,407	-5,407	-5,419	-12				-12
Use of Cash Limit Reserve	-210	-6,844	-6,044	800		-4,905		-4,105
Use of (-) / contribution to General Reserves	0	0	-6,100	-6,100				-6,100
TOTAL	0	0	0	0	993	-4,752	24,322	20,563

Appendix 3: General Fund Revenue Summary by Expenditure / Income for 2016/17

	Original Budget 2016/17	Revised Budget	Proposed Budget Revisions	Agreed Budget	Service Groupings Final Outturn	Corporate Costs	Variance	Cash Limit Adjustments: Sums Outside the Cash Limit	Cash Limit Adjustments: Cash Limit Reserve	Cash Limit Adjustments: Contribution to / Use of Earmarked Reserves	Cash Limit Position	Cash Limit Carry Forward (including Corporate Costs)	Variance - Corporate Costs
	£'000	£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000	£'000
Employees	496,559	505,690	0	505,690	515,619	1,202	11,131	3,194	38	-2,882	11,481	-11,481	-52
Premises	51,287	54,487	0	54,487	56,340	5	1,858	-1,989	12	-67	-186	186	0
Transport	41,402	40,436	0	40,436	39,509	0	-927	-1	0	-16	-944	944	0
Supplies & Services	120,648	128,807	0	128,807	124,938	1,104	-2,765	627	18	3,045	925	-925	-220
Agency & Contracted	310,712	312,978	0	312,978	326,023	2,200	15,245	-33	324	584	16,120	-16,120	-8
Transfer Payments	209,047	211,438	0	211,438	208,921	0	-2,517	0	0	89	-2,428	2,428	0
Central Costs	75,877	90,183	0	90,183	69,002	849	-20,332	-3,625	-239	6,744	-17,452	17,452	87
DRF	0	71	0	71	2,236	0	2,165	-627	0	-777	761	-761	0
Other	25,199	27,480	0	27,480	26,427	0	-1,053	-6	0	538	-521	521	0
Capital Charges	55,478	55,478	0	55,478	51,727	0	-3,751	3,751	0	0	0	0	0
GROSS EXPENDITURE	1,386,209	1,427,048	0	1,427,048	1,420,742	5,360	-946	1,291	153	7,258	7,756	-7,756	-193
Income													
Government Grants	584,251	568,648	0	568,648	578,055	306	9,713	47	0	-141	9,619	-9,619	-1
Other Grants and Contributions	70,538	73,530	0	73,530	75,584	0	2,054	-80	0	1,704	3,678	-3,678	0
Sales	8,881	8,069	0	8,069	8,303	304	538	-154	0	0	384	-384	0
Fees and Charges	105,241	106,491	0	106,491	110,662	49	4,220	0	0	48	4,268	-4,268	-49
Rents	8,787	7,686	0	7,686	8,302	0	616	0	0	-471	145	-145	0
Recharges To Other Services	190,646	221,856	0	221,856	217,852	0	-4,004	-6,421	0	39	-10,386	10,386	0
Other	6,924	7,512	0	7,512	14,243	0	6,731	0	0	-888	5,843	-5,843	0
Total Income	975,268	993,792	0	993,792	1,013,001	659	19,868	-6,608	0	291	13,551	-13,551	-50
NET EXPENDITURE	410,941	433,256	0	433,256	407,741	4,701	-20,814	7,899	153	6,967	-5,795	5,795	-243

Appendix 4: General Fund Earmarked Reserves as at 31 March 2017

	EARMARKED RESERVES AND CASH LIMIT RESERVES	SERVICE GROUPING	2015/16 CLOSING BALANCE	USE OF RESERVES	CONTRIBUTION TO RESERVES	TRANSFERS BETWEEN RESERVES	TOTAL MOVEMENT ON RESERVES	2016/17 CLOSING BALANCE AS AT 31 MAR 2017
			£'000	£'000	£'000	£'000	£'000	£'000
1	T&P AAP/Members Reserve	T&P	-3,606	1,124	0	0	1,124	-2,482
2	T&P Grant Reserve	T&P	-1,412	264	-24	0	240	-1,172
3	T&P Operational Reserve	T&P	-747	13	-176	20	-143	-890
4	Social Care Reserve	AHS	-13,363	5,397	-170	1,800	7,027	-6,336
5	Public Health Reserve	AHS	-4,955	1,865	-590	244	1,519	-3,436
6	Env. Health and Consumer Protection Reserve	AHS	-814	79	0	26	105	-709
7	Children's Services Reserve	CYPS	-5,835	2,251	-2,402	1,000	849	-4,986
8	Continuing Professional Development Reserve	CYPS	-1,201	15	0	0	15	-1,186
9	Education Reserve	CYPS	-3,652	399	-5,789	0	-5,390	-9,042
10	Neighbourhoods AAP Reserve	REAL	-49	3	0	0	3	-46
11	Customer Services Reserve	REAL	-233	0	0	23	23	-210
12	Direct Services Reserve	REAL	-3,125	1,639	-1,608	500	531	-2,594
13	Culture and Sport Reserve	REAL	-3,112	1,818	-224	-1,028	566	-2,546
14	Strategic Waste Reserve	REAL	-136	0	0	0	0	-136
15	Technical Services Reserve	REAL	-4,353	1,073	-851	-500	-278	-4,631
16	Transport Asset Management Programme Reserve	REAL	-160	160	0	0	160	0
17	Business Growth Fund Reserve	REAL	-816	52	0	0	52	-764
18	Economic Development Reserve	REAL	-1,323	35	-673	-467	-1,105	-2,428
19	Planning Reserve	REAL	-1,329	293	-220	5	78	-1,251
20	North Pennines AONB Partnership Reserve	REAL	-206	0	-123	0	-123	-329
21	Employability and Training Reserve	REAL	-1,706	269	-103	1,414	1,580	-126
22	REAL Match Fund Progamme Reserve	REAL	-2,012	173	-180	284	277	-1,735
23	Housing Regeneration Reserve	REAL	-320	70	-14	-827	-771	-1,091
24	Housing Solutions Reserve	REAL	-1,142	21	-307	100	-186	-1,328
25	Restructure Reserve	REAL	-188	74	0	0	74	-114
26	Transport Reserve	REAL	-249	42	0	0	42	-207
27	Funding and Programmes Management Reserve	REAL	-156	0	0	-234	-234	-390
28	Resources Corporate Reserve	Resources	-931	245	-485	193	-47	-978
29	Resources DWP Grant Reserve	Resources	-2,035	558	-325	120	353	-1,682
30	Resources System Development Reserve	Resources	-874	178	-29	0	149	-725
31	Resources Housing Benefit Subsidy Reserve	Resources	-500	67	0	0	67	-433
32	Resources Revenue and Benefits Reserve	Resources	-200	0	-100	0	-100	-300
33	Resources Single Fraud Incentive Scheme	Resources	-257	0	0	257	257	0
34	Resources Land Search Fees Reserve	Resources	-444	111	-32	365	444	0
35	Resources Legal Expenses Reserve	Resources	-200	0	0	0	0	-200
36	Resources Legal Services Reserve	Resources	-154	0	0	0	0	-154
37	Resources Elections Reserve	Resources	-1,010	0	0	0	0	-1,010
38	Resources ICT Reserves	Resources	-1,727	828	-458	399	769	-958
39	Human Resources Reserve	Resources	-65	57	-89	0	-32	-97
40	Equal Pay Reserve	Corporate Fin	-9,529	641	-7,000	-4,253	-10,612	-20,141
41	Insurance Reserve	Corporate Fin	-10,228	0	-2,363	2,600	237	-9,991
42	Performance Reward Grant Reserve	Corporate Fin	-685	47	0	0	47	-638
43	MTFP Redundancy and Early Retirement Reserve	Corporate Fin	-13,859	5,849	0	-4,812	1,037	-12,822
44	Office Accommodation Project Support Reserve	Corporate Fin	-697	410	0	211	621	-76
45	Budget Support Reserve	Corporate Fin	-30,000	1,624	0	-14,246	-12,622	-42,622
46	Office Accommodation Capital Reserve	Corporate Fin	-42,481	0	0	1,836	1,836	-40,645
47	Housing Stock Transfer Reserve	Corporate Fin	-1,000	0	0	1,000	1,000	0
48	Pension Deficit Reserve	Corporate Fin	-10,000	0	0	10,000	10,000	0
49	Inspire Programme Reserve	Corporate Fin	0	0	0	-2,664	-2,664	-2,664
	Total Earmarked Reserves		**-183,076**	**27,744**	**-24,335**	**-6,634**	**-3,225**	**-186,301**
	Cash Limit Reserves							
50	Adult and Health Services		-2,336	0	-4,746	1,570	-3,176	-5,512
51	Children and Young People's Services		-11,164	3,372	3,860	623	7,855	-3,309
52	Regeneration and Local Services		-6,371	1,170	-2,760	1,729	139	-6,232
53	Resources		-2,151	420	-1,801	2,509	1,128	-1,023
54	Transformation and Partnerships		-277	0	-105	203	98	-179
	Total Cash Limit Reserves		**-22,299**	**4,962**	**-5,552**	**6,634**	**6,044**	**-16,255**
	Total Council Reserves		**-205,375**	**32,706**	**-29,887**	**0**	**2,819**	**-202,556**
	Schools' Balances							
Sch 1	Schools' Revenue Balance	CYPS	-24,083	4,247	0	0	4,247	-19,836
Sch 2	DSG Reserve	CYPS	-12,185	1,025	0	0	1,025	-11,160
	Total Schools and DSG Reserve		**-36,268**	**5,272**	**0**	**0**	**5,272**	**-30,996**

Audit Committee

31 July 2017

Treasury Management Outturn 2016/2017

Report of John Hewitt, Corporate Director of Resources

Purpose of the Report

1 To provide the Audit Committee with details of the Annual Treasury Management Review and final outturn on treasury management activities for 2016/17.

Background

2 The attached report presented to Cabinet on 12 July 2017 provides a detailed review of the final outturn position for Treasury Management.

Recommendation and reasons

3 Members are asked to note the 2016/17 final outturn position on Treasury Management.

Contact: Beverley White Tel: 03000 261900

Appendix 1: Implications

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

Staffing -

None

Risk -

None

Equality and Diversity -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Discrimination Act -

None

Legal Implications -

None

Cabinet

12 July 2017

Treasury Management Outturn 2016/17

Report of Corporate Management Team
John Hewitt, Corporate Director of Resources
Councillor Alan Napier, Cabinet Portfolio Holder for Finance

Purpose of the Report

1 To provide information on the Treasury Management outturn position for the year ended 31 March 2017.

Background

2 Treasury Management is the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks. It is concerned with how the Council manages its cash resources and its scope covers borrowing, investment and hedging instruments and techniques.

3 The regulatory framework governing Treasury Management covers the Council's cash management, loans and investments activity and requires that the Council receives, comments upon and agrees regular Treasury Management review reports.

4 Risk is inherent in all treasury management activities and it is necessary to balance risk against return on investment.

5 In addition to meeting the regulatory framework, this report incorporates the needs of the 'Prudential Code', which can be regarded as being best operational practice, to ensure adequate monitoring of the Council's capital expenditure plans and prudential indicators (PIs). The Treasury Management Strategy and PIs for 2016/17 were agreed by the Council as part of the Medium Term Financial Plan 2016/17 to 2019/20 (MTFP6) on 24 February 2016, were revised in the Mid-Year Review Report on Treasury Management which was agreed by Council on 7 December 2016 and have subsequently been updated as part of the Medium Term Financial Plan 2017/18 to 2019/20 report (MTFP7), agreed by Council on 22 February 2017.

6 The report also supports the objective in the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the Communities and Local Government Investment Guidance. These state that Members should receive reports and scrutinise the Treasury Management function as part of good governance and best practice.

7 During 2016/17 the minimum reporting requirements were that full Council should receive the following reports:

(a) annual Treasury Management Strategy in advance of the year (reported to Council on 24 February 2016);

(b) mid-year Treasury Management update report (reported to Council on 7 December 2016);

(c) annual review following the end of the year (this report).

8 This report provides a summary of the following:

(a) economic and interest rate review for 2016/17;

(b) capital expenditure and financing during the year;

(c) overall borrowing requirement;

(d) treasury position as at 31/3/17;

(e) investment strategy;

(f) investment outturn for the year.

Economic and Interest Rate Review 2016/17

9 The Council's Treasury Management advisers, Capita Asset Services, have provided their views on how changes to market expectations influenced the economy during 2016/17.

10 These views are detailed in Appendix 2.

Capital Expenditure and Financing

11 The Council undertakes capital expenditure on long-term assets. These activities may either be:

(a) financed immediately through the application of capital or revenue resources (capital receipts, capital grants or revenue contributions), which has no resultant impact on the Council's borrowing need, or

(b) if insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

12 Actual capital expenditure forms one of the required prudential indicators. The following table shows the actual capital expenditure in 2016/17 and how this was financed.

	2016/17 Actual £ million
Capital Expenditure	107.141
PFI and Finance Lease	2.968
Total capital expenditure	**110.109**
Resourced by:	
Capital receipts	7.649
Capital grants	47.150
Capital reserves and revenue	20.398
Unfinanced capital expenditure	**34.912**

Overall Borrowing Requirement

13 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

14 The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2016/17 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

15 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the Corporate Director of Resources' treasury management team organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements.

16 This may be sourced through borrowing from external bodies (such as the Government, PWLB or money markets), or internal resources (e.g. use of reserves, working capital).

17 The Council's capital finance requirement (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need.

18 The Council's 2016/17 MRP Policy, as required by the Department of Communities and Local Government (CLG) guidance was approved as part of the Treasury Management Strategy Report for 2016/17 on 24 February 2016, then updated and reported to Council on 22 February 2017.

19 The Council's CFR for 2016/17, as agreed in February 2016, is shown in the following table, and represents one of the key prudential indicators.

CFR	Original Estimate	Actual at 31 Mar 17
	£ million	£ million
Opening balance	498.063	410.407
add unfinanced capital expenditure	84.587	34.913
add acquisition of share & loan capital	-	0.11
less MRP/ VRP	-18.618	-13.589
less loan repayments	-	-0.09
Closing balance	**564.032**	**431.751**

20 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit. In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure.

21 The authorised limit is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level.

22 The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

23 The table below demonstrates that during 2016/17 the Council has maintained gross borrowing within its authorised limit.

	2016/17 (original) £ million	2016/17 (revised) £ million
Authorised limit	552.000	520.000
Operational boundary	499.000	467.000
Maximum gross borrowing position		255.639
Average actual gross borrowing position		247.633

Treasury Position as at 31 March 2017

24 The Council's debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments, and to manage risks within all treasury management activities.

25 The Treasury position for the Council during 2016/17 is shown in the table below:

	31.03.16	Rate/ Return	Average Life	31.03.17	Rate/ Return	Average Life
	£million	%	years	£million	%	years
Capital Financing Requirement (CFR)	410			432		
Total Debt	246	4.15		256	3.96	
(-) Under Borrowing	-164			-176		
Total Investments	195	0.87	0.41	175	0.52	0.23
Net Debt (total debt less total investments)	51			81		

26 New borrowing of £20 million was raised during 2016/17 for the purpose of financing capital expenditure. A loan of £10 million matured and was repaid in December 2016.

27 Debt rescheduling opportunities are very limited in the current economic climate, therefore no debt rescheduling has been undertaken this year.

28 The maturity structure of the debt portfolio as at 31 March 2017, in comparison to the limits set out in the Treasury Management Strategy was as follows:

	31.03.17 Actual	2016/17 upper limits	31.03.17 Actual
	£ million	%	%
Under 12 months	0.007	20	-
12 months and within 24 months	10.002	40	3.91
24 months and within 5 years	22.028	60	8.62
5 years and within 10 years	62.617	80	24.49
10 years and above	160.979	100	62.98
Total	**255.633**		

29 As shown in the table above, the Council's borrowing was maintained within the upper limits set out in the Treasury Management Strategy for 2016/17.

Investment Strategy 2016/17

30 The prime objective of the Council's Investment Strategy is to ensure prudent investment of surplus funds. The Council's investment priorities are therefore the security of capital, liquidity of investments and, within those objectives, to secure optimum performance in terms of interest earned. The Council has regard to the CLG Guidance and the CIPFA Treasury Management Code when making its investment decisions.

31 Therefore the primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

32 The investment strategy adopted in the original Annual Treasury Management Statement for 2016/17 was subject to the following revisions, which were approved by Council on 7 December 2016:

(a) an increase to the Treasury Management Indicator for the upper limit on variable interest rate exposure;

(b) an extension of the list of investment instruments categorised as as non-specified to enable the Council to invest in other entities locally;

(c) an increase to the monetary limit for equity shareholdings;

(d) to add property funds to the list of instruments in which the Council is authorised to invest.

33 The main reasons for the above revisions were to facilitate a more balanced approach to investing by diversifying the Council's investment portfolio, spreading the investment risk and maximising investment returns and allow for investments in businesses within County Durham in order to encourage regeneration and economic development in the area.

Investment Outturn for 2016/17

34 As at 31 March 2017 the Council held investments totalling £174.617 million. The following table provides a breakdown of these investments split by the type of financial institution, split by maturity period.

Financial Institution	0-3 months	3-6 months	6-12 months	Total
	£ million			
Banks rated AA-	5.382	-	-	5.382
Banks rated A		14.225	61.642	75.867
Building Societies	-	-	14.225	14.225
Central Government	0.948	-	-	0.948
Other Local Authorities	59.252	-	-	59.252
Money Market Funds	18.943	-	-	18.943
TOTAL	**84.525**	**14.225**	**75.867**	**174.617**
% of total	**48.4%**	**8.1%**	**43.5%**	

35 The actual investment return for investment income for 2016/17 was £5.749 million, which is £4.108 million higher than the original budget of £1.641 million. This is mainly due to the dividend of £2.64 million received from Newcastle International Airport during the year.

36 The following table details the Council's equity shareholdings as at 31 March.

Company	31.03.16	31.03.17
	£ million	£ million
Atom Bank	-	0.152
Chapter Homes	0.450	1.715
Forrest Park	1.000	1.000
Newcastle International Airport Ltd	10.558	10.558
Polyphotonix	0.300	0.300
Total	**12.308**	**13.725**

37 Dividend income received of £3.122 million was received during 2016/17. This is included in the investment income figure of £5.749 million.

Icelandic Deposits Update

38 Prior to Local Government Review, one former District Council had £7 million deposited across the Icelandic banks Glitnir Bank hf (£4 million), Landsbanki (£2 million) and Kaupthing Singer and Friedlander Ltd (£1 million), which all collapsed financially in October 2008. The County Council inherited this position in April 2009.

39 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. As at 31 March 2017 84.25% of the outstanding balance has been repaid to the Council; 86% to 86.5% recovery is ultimately anticipated.

Recommendations and Reasons

40 It is recommended that Cabinet note the treasury management outturn position for 2016/17 and agree to report to Full Council on 20 September 2017.

Background Papers

(a) 24 February 2016 – County Council - General Fund Medium Term Financial Plan, 2016/17 to 2019/20 and Revenue and Capital Budget 2016/17.

(b) 07 December 2016 – County Council - Mid-Year Report for the Period to 30 September 2016 on Treasury Management.

(c) 22 February 2017 – County Council - Medium Term Financial Plan, 2017/18 – 2019/20 and Revenue and Capital Budget 2017/18.

Contact: Jeff Garfoot Tel: 03000 261946

Appendix 1: Implications

Finance

The report details the Council's cash management, loans and investment activity during 2016/17. The report also provides the overall financing of the Council's capital expenditure, along with borrowing and investment income returns.

Staffing

None.

Risk

None.

Equality and Diversity / Public Sector Equality Duty

None.

Accommodation

None.

Crime and Disorder

None.

Human Rights

None.

Consultation

None.

Procurement

None.

Disability Issues

None.

Legal Implications

None.

Appendix 2: Economic and Interest Rate Review provided by Capita

Capita Asset Services, the Council's treasury adviser, has provided the following economic and interest rate review for 2016/17.

The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was 17% down against the dollar but had not fallen as far against the euro. In February 2017, the latest CPI inflation figure had risen to 2.3%, above the MPC's inflation target of 2%. However, the MPC's view was that it would look through near term supply side driven inflation, (i.e. not raise Bank Rate), caused by sterling's devaluation, despite forecasting that inflation would reach nearly 3% during 2017 and 2018. This outlook, however, is dependent on domestically generated inflation, (i.e. wage inflation), continuing to remain subdued despite the fact that unemployment is at historically very low levels and is on a downward trend. Market expectations for the first increase in Bank Rate moved forward to quarter 3 2018 by the end of March 2017 in response to increasing concerns around inflation.

USA. Quarterly growth in the US has been very volatile during 2016 but a strong performance since mid-2016, and strongly rising inflation, prompted the Fed into raising rates in December 2016 and March 2017. The US is the first major western country to start on a progressive upswing in rates. Overall growth in 2016 was 1.6%.

EU. The EU is furthest away from an upswing in rates; the European Central Bank (ECB) has cut rates into negative territory, provided huge tranches of cheap financing and been doing major quantitative easing purchases of debt during 2016-17 in order to boost growth from consistently weak levels, and to get inflation up from near zero towards its target of 2%. These purchases have resulted in depressed bond yields in the EU, but, towards the end of 2016, yields rose, probably due at least in part to rising political concerns around the positive prospects for populist parties and impending general elections in 2017 in the Netherlands, France and

Germany. The action taken by the ECB has resulted in economic growth improving significantly in the eurozone to an overall figure of 1.7% for 2016, with Germany achieving a rate of 1.9% as the fastest growing G7 country.

On the other hand, President Trump's election and promise of fiscal stimulus, which are likely to increase growth and inflationary pressures in the US, have resulted in Treasury yields rising sharply since his election. Gilt yields in the UK have been caught between these two influences and the result is that the gap in yield between US treasuries and UK gilts has widened sharply during 2016/17 due to market perceptions that the UK is still likely to be two years behind the US in starting on an upswing in rates despite a track record of four years of strong growth.

Japan struggled to stimulate consistent significant growth with GDP averaging only 1.0% in 2016 with current indications pointing to a similar figure for 2017. It is also struggling to get inflation up to its target of 2%, only achieving an average of -0.1% in 2016, despite huge monetary and fiscal stimulus, though this is currently expected to increase to around 1% in 2017. It is also making little progress on fundamental reform of the economy.

China and emerging market counties. At the start of 2016, there were considerable fears that China's economic growth could be heading towards a hard landing, which could then destabilise some emerging market countries particularly exposed to a Chinese economic slowdown and / or to the effects of a major reduction in revenue from low oil prices. These fears have largely subsided and oil prices have partially recovered so, overall, world growth prospects have improved during the year.

Equity markets. The result of the referendum, and the consequent devaluation of sterling, boosted the shares of many FTSE 100 companies which had major earnings which were not denominated in sterling. The overall trend since then has been steeply upwards and received further momentum after Donald Trump was elected President as he had promised a major fiscal stimulus to boost the US economy and growth rate.

Investment Rates in 2016/17

After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.

PWLB certainty maturity borrowing rates in 2016/17

During 2016-17, PWLB rates fell from April to June and then gaining fresh downward impetus after the referendum and Bank Rate cut, before staging a partial recovery through to December and then falling slightly through to the end of March.

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Audit Committee

31 July 2017

Strategic Risk Management Progress Report for the Quarter period April to June 2017

Report of Corporate Management Team
John Hewitt, Corporate Director Resources

Purpose of the Report

1 The purpose of this report is to highlight the strategic risks facing the Council and to give an insight into the work carried out by the Corporate Risk Management Group during the period April to June 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 the Deputy Leader and Finance, and the Corporate Director, Resources as member and officer risk champions respectively. Collectively, they meet together with the Risk and Governance Manager as a Corporate Risk Management Group (CRMG). A summary setting out how the Council deals with the risk management framework is included in appendix 2.

3 Throughout this report, both in the summary and the appendices, all risks are reported as 'net risk' (after putting in place mitigating controls to the 'gross risk' assessment), which is based on an assessment of the impact and likelihood of the risk occurring with existing controls in place.

Current status of the risks to the Council

4 As at 30 June 2017, there were 23 risks on the corporate strategic risk register, one more than as at 31 March 2017. During quarter 1, two risks were added and one was 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) Failure to protect child from death or serious harm (where service failure is a factor or issue);
(d) A service failure of Adult Safeguarding leads to death or serious harm to a service user;
(e) 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 30 June 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.

Contact: Kevin Roberts Tel: 03000 269657

Appendix 1: Implications

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.

Appendix 2: How the Council manages the Risk Management Framework

The Cabinet and the Corporate Management Team have designated the Cabinet Portfolio Holder for the Deputy Leader and Finance, 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 and the Director of Transformation and Partnerships to develop and maintain the internal control framework and to ensure that their service resources are properly applied in the manner and to the activities intended. Therefore, in this context, heads of service are responsible for identifying and managing the key risks which may impact on their respective service, and providing assurance that adequate controls are in place, and working effectively to manage these risks where appropriate. In addition, independent assurance of the risk management process, and of the risks and controls of specific areas, is provided by Internal Audit. Reviews by external bodies, such as the Audit Commission, Ofsted and Care Quality Commission, may also provide some independent assurance of the controls in place.

Risks are assessed in a logical and straightforward process, which involves the risk owner (within the service) assessing both the impact on finance, service delivery or stakeholders if the risk materialises, and also the likelihood that the risk will occur over a given period. The assessment is confirmed by the Service Management Team.

An assurance mapping framework is being developed to demonstrate where and how the Council receives assurance that its business is run efficiently and effectively, highlighting any gaps or duplication that may indicate where further assurance is required or could be achieved more effectively.

The Council is also jointly responsible for responding to civil emergencies (such as severe weather events, network power losses and flu epidemics) through the County Durham and Darlington Local Resilience Forum. An explanation of the arrangements for managing the risk of such events and a copy of the latest Community Risk Register can be found on the web page of the County Durham and Darlington Local Resilience Forum.

Appendix 3: Progress on the management of the Council's Strategic Risks

Risks are assessed at two levels:

- Gross impact and likelihood are based on an assessment of the risk without any controls in place;

- Net impact and likelihood are based on the assessment of the current level of risk, taking account of the existing controls/ mitigation in place.

As at 30 June 2017, there were 23 risks on the corporate strategic risk register, one more than as at 31 March 2017. During quarter 1, two risks were added and one was removed.

The following matrix profiles the strategic risks according to their net risk evaluation as at 30 June 2017. To highlight changes in each category during the last quarter, the number of risks as at 30 March 2017 is shown in brackets.

Overall number of Strategic Risks as at 30 June 2017

Impact					
Critical	1 (1)	1 (0)	4 (4)		1 (1)
Major		3 (2)	3 (3)	0 (1)	
Moderate			9 (10)	1 (0)	
Minor					
Insignificant					
Likelihood	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 *'Inability to recruit and retain children's social workers and social work managers may seriously inhibit the delivery of services'* (appendix 4, risk 16).

This risk relates to the teams, Child Protection & Disability, and First Contact & Intervention. Posts in Child Protection and Families First are particularly difficult to fill. The posts affected are team managers, senior practitioners, social work consultants and social workers, with particular problems for social workers and team managers. The net evaluation of the risk is moderate impact with a probable likelihood of occurrence. **(CYPS)**

2 '*If the Council suffered a major cyber-attack, then it may be unable to effectively deliver essential services during the period of recovery'* (appendix 4, risk 10).

A risk assessment was developed in conjunction with the Civil Contingency Unit with input from the Head of ICT. The risk owner is the Senior Information Risk Officer. This risk focuses on the recovery after an incident, not the risks associated with technical measures in place to prevent an attack occurring, which is subject to a separate risk assessment. The net evaluation of the risk is major impact with an unlikely chance of occurrence. **(T&P)**

Increased Risks

3 No corporate strategic risks have increased during the quarter.

Removed Risks

4 *'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'.*

These factors already exist in many parts of the region and are being managed on a location by location basis, as applicable. **(REAL)**

Reduced Risks

5 *'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'* (appendix 4, risk 5).

The likelihood of this risk has been reduced from possible to unlikely. An ongoing project is in place to ensure compliance and servers that cannot be made compliant or effectively relocated will be switched off. A PSN risk register has also been completed, and is reviewed on an ongoing basis and as part of the annual review. **(RES)**

Amended Risks

6 *'Major Interruption to IT Service Delivery'* (page 11, risk 5).

Due to the effectiveness of existing controls, the net likelihood is now considered possible, not probable. However, the review has also highlighted a marginal increase in the net financial impact, meaning that the overall net impact is now critical, not major. **(RES)**

Key Risks

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

Key Risks Matrix

Net Impact					
Critical			Risk 1 MTFP Slippage Risk 3 Child Safeguarding Risk 4 Adult Safeguarding Risk 5 Major Interruption to IT Service Delivery		Risk 2 Ongoing Government funding cuts
Major					
Moderate					
Minor					
Insignificant					
Net Likelihood	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	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.

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	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.
5	RES Risk Owner: Alan Patrickson	Altogether Better Council	Major Interruption to IT Service Delivery	Critical	Possible	A programme for an electrical upgrade has been developed	Net impact major to critical. Net likelihood probable to possible.	Following a change to the scope of works required by ICT, the anticipated completion date for the electrical upgrade has been put back from December 2017 to March 2018.

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

Based on the **Net** risk assessment as at 30 June 2017, the following tables highlight the risks for each Corporate Theme.

Corporate Theme – Altogether Better Council

Ref	Service	Risk
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	T&P	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO
5	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.
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	REAL	Potential adverse financial and operational impacts of the Homelessness Reduction Bill on the Housing Solutions service.
9	RES	Serious breach of Health and Safety Legislation
10	T&P	If the Council suffered a major cyber-attack, then it may be unable to effectively deliver essential services during the period of recovery.
11	T&P	Failure to consider equality implications of decisions on communities leading to legal challenge and delays in implementation
12	RES	Due to the current economic climate and amount of change occurring across the Council, there is potential for increases in fraud and error.
13	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
14	CYPS	Failure to protect child from death or serious harm (where service failure is a factor or issue)
15	CYPS	Proposed changes to the School Funding Formula threaten the viability of some schools
16	CYPS	Inability to recruit and retain children's social workers and social work managers may seriously inhibit the delivery of services.

Altogether Greener

No significant strategic risks have been identified under this theme.

Altogether Healthier

	Service	Risk
17	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

	Service	Risk
18	AHS	A service failure of Adult Safeguarding leads to death or serious harm to a service user.
19	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.
20	REAL	Damage to Highways assets as a result of a severe weather event.
21	REAL	Serious injury or loss of life due to Safeguarding failure (Transport Service)

Altogether Wealthier

	Service	Risk
22	REAL	Future strategic direction of the Council and the County will be adversely impacted if the County Durham Plan is not adopted.
23	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

	Objective: To demonstrate that risks are being effectively managed			
KPI	**Measure of Assessment**	**Target & (Frequency of Measurement)**	**Last Quarter**	**This Quarter**
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 **current** risks where Net risk scores have reduced over the quarter	Target N/A (Quarterly)	Three	One
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 Council approved the updated Local Code of Corporate Governance to replace the previous version in the Council's Constitution.	The Annual Governance Statement was approved by Audit Committee on 28 June 2017.
	Objective: To ensure that Officers and Members are appropriately skilled in risk management			
KPI	**Measure of Assessment**	**Target & (Frequency of Measurement)**	**Last Quarter**	**This Quarter**
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)	No training provided in this quarter.	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 maintained core business processes and avoided serious reputational damage. • *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.* ***(RES)*** • *Major Interruption to IT Service Delivery.* ***(RES)***
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. • *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)***
Innovative decisions that were risk managed	As above	As above	
Financial return for the Council	As above	As above	

Appendix 6: Emerging Strategic Risks

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	Description	Risk Owner	Update and Actions
1	Fire safety	The fire at Grenfell Tower, Kensington in June 2017 has raised new concerns about fire safety, particularly in large, multi-storey buildings with cladding made from Aluminium Composite Material. The Government has ordered a public inquiry, which may result in changes to fire safety regulations. There is no high rise residential accommodation in County Durham, either in existing property stock or social housing. Investigations are underway to review the risks for other types of building in the light of recent events. At the present time, no new formal safety advice has been issued by central government or local fire and rescue services.	Ian Thompson	In County Durham, a Public Safety Review Group has been convened and this will continue to monitor guidance and instruction from the Grenfell Tower expert advisory panel and any other central government guidance and act upon this accordingly. Other ongoing actions include:- • Signposting social housing providers, the Council's business tenants and other service providers to central government guidance post Grenfell and reminding them of their statutory duties and fire safety responsibilities. • Compiling a list of all Council premises to evidence that suitable and sufficient fire safety standards are in place. • Preparing reassurance communications for the general public in relation to the situation within County Durham, actions being taken by the Council and how to report any concerns regarding fire safety. • Reviewing emergency procedures to take on board any lessons learnt from Grenfell
2	Potential increase in equal pay claims	Increasing numbers of equal pay claims from staff using a specific group as a comparator.	John Hewitt	Officers are monitoring developments and there are ongoing negotiations and consultation with trade unions.

Ref	Emerging Risk	Description	Risk Owner	Update and Actions
3	European Union	Following the referendum in June 2016, in which the United Kingdom voted to leave the European Union, there will potentially be adverse effects on the economy, safety and welfare of the County.	CMT	There is still uncertainty about the impacts and CMT is monitoring developments.
4	General Data Protection Regulation	The General Data Protection Regulation will replace the Data Protection Act in May 2018, which will require significant changes to the way services use personal data.	Lorraine O'Donnell	A risk assessment will be completed in quarter 2.
5	Inflation	Inflationary pressures 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.	Jeff Garfoot	No longer considered a significant risk at the present time, taking account of the mitigations in place, but it will continue to be monitored within the service.
6	Recovery of Licence Fees	Following a recent ruling by the European Court of Justice in a case involving Westminster City Council, there was a possibility of recovery of licence fees by traders from local authorities. The case relates to the imposition of certain charges on the licensed trade to cover enforcement costs.	Joanne Waller	This is no longer considered a significant risk. The financial risk would be minimal and the likelihood of challenge would be very low. No further monitoring is necessary.

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Audit Committee

31 July 2017

Update on the Statement of Accounts for the year ended 31 March 2017

Report of John Hewitt, Corporate Director Resources

Purpose of the Report

1 To update members on progress to date in respect of completion of the Council's Annual Statement of Accounts for the financial year ended 31 March 2017.

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. This stage was completed on 31 May 2017 as part of our successful 'dry-run' for the early closure of accounts.

3 The second stage, as set out in the` Regulations, requires that on or before the 30 September, approval needs to be given to the Statement of Accounts by resolution of a committee, which for Durham County Council is the Audit Committee.

4 This approval needs to take into account the views of the External Auditor, and with the agreement of our External Auditors, we were aiming to present the Statement of Accounts for 2016/17 for approval at the Audit Committee on 31 July 2017. This would have been in line with the statutory reporting deadline for completion of the External Audit in respect of the 2017/18 financial year and subsequent years.

Update – Current Position

5 The External Auditor has substantially completed the audit of the Statement of Accounts in line with the early reporting deadlines and although there are a number of outstanding queries to resolve it was expected that the issues would all be resolved by the 31 July 2017, allowing the auditor to present his completion report and opinion on the accounts at this meeting.

6 A separate report prepared by the External Auditor on the issues arising from the External Audit and progress to date is included later in the Agenda.

7 It is anticipated that all outstanding issues identified by the External Auditor will have been resolved by 31 July 2017, with the exception of one significant matter. This will prevent the External Auditor from giving his final opinion on the accounts at this stage, as was originally envisaged.

8 During the external audit review, which has otherwise gone smoothly, the review of Property, Plant and Equipment values in the asset register has led to the requirement for additional testing of the source data used in the valuation of assets. This has arisen due to the fact that in the limited sampling done to date there were several errors / discrepancies in the floor areas used in the valuation of some of these assets.

9 Further work is now required on a larger sample of assets and it has not been possible to complete the additional work and undertake the external review of this information before 31 July, 2017.

External Audit Opinion

10 The External Auditor can issue a ‘qualified opinion’ where he has some reservations or concerns, or an ‘unqualified opinion’ where he does not have any reservations.

11 In order to secure an ‘unqualified opinion’ by the statutory deadline of 30 September 2017 plans have been put in place to ensure further sampling and testing is done to satisfy myself and the External Auditor that the figures in the Statement of Accounts present a ‘true and fair view’ of the financial position of the Council.

12 The results of the additional work required will help inform the lessons learned from the attempted ‘dry-run’ to ensure the statutory early closure deadline on 31 July can be achieved in 2017/18.

Recommendation

13 The Audit Committee notes the issues arising from the External Audit, which has prevented the completion of the Statement of Accounts process for the year ended 31 March 2017 in line with the planned dry run early closure requirements this year.

14 That Audit Committee notes that the Statement of Accounts for the financial year ended 31 March 2017 will be finalised / presented to the meeting on 29 September 2017 for approval.

Contact: Ian Herberson Tel: 03000 261861

Appendix 1: Implications

Finance

This report relates to the External Audit of the Statement of Accounts for the year ended 31 March 2017. The figures included in the Statement of Accounts must represent a true and fair view of the Councils financial position and the External Audit testing and opinion on these figures is a significant part of the process.

Staffing -

The additional sampling of asset values / floor areas will provide additional evidence to inform whether the values in the Council Balance Sheet reflect a true and fair view of their value. The additional evidence will be collated from within existing resources.

Risk -

The statutory reporting deadline for approval of the Statement of Accounts is 30 September, 2017 this year. The Council has been undertaking a dry run in line with the earlier closure deadline of 31 July, which will apply from next year. Unfortunately, it has not been possible to complete the audit testing of the asset values to the satisfaction of the external Auditor at this stage, which has delayed the issuing of the opinion on the accounts. It is anticipated that the additional testing will provide that assurance on the accounts and / or provide the time to make adjustments to the accounts in advance of the statutory reporting deadline this year.

Once the audit of the accounts is completed a full “lessons learned” review will be undertaken to inform arrangements for the 2017/18 year end. This will include meetings with the External Auditor with regards to the ordering of audit testing, the Councils response to queries raised etc.

Equality and Diversity -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability -

None

Legal Implications -

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.

The second stage, as set out in the` Regulations, requires that on or before the 30 September, approval needs to be given to the Statement of Accounts by resolution of a committee, which for Durham County Council is the Audit Committee.

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Audit Committee

31 July 2017

External Audit – Durham County Council Audit Completion Report Year Ended 31 March 2017

Report of the External Auditor

Purpose of the Report

1. The Committee is asked to note the contents of the attached External Auditor report on the audit of the statement of accounts for the County Council for year ended 31 March 2017.

Background

2. This report illustrates the findings of the external audit completed by Mazars for the year ended 31 March 2017 for Durham County Council.
3. The audit has been completed in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board.

Summary of audit progress

4. Our work on the audit is substantially complete. Section 1 of the report details the ongoing audit procedures. The most significant ongoing piece of work relates to the review of floor areas used for asset valuations. This work is being completed by management and will not be completed by the 31 July 2017. This work follows the identification of errors in our detailed valuation testing. The statutory deadline for completing the audit is 30 September 2017.

Recommendation

5. The Committee is requested to:

- Note the report, including the adjustments to the financial statements included at Appendix A of the report.

Contact: James Collins **Tel: 03000 267452**

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

Statutory approval of the accounts

Audit Completion Report

Durham County Council

For the year ended 31 March 2017

MAZARS

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1. Executive summary

Purpose of this report

The Audit Completion Report sets out the findings and progress to date of our audit of Durham County Council (the Council) for the year ended 31 March 2017, and forms the basis for discussion at the Audit Committee meeting on 31 July 2017. Members will note that the statutory reporting deadline for completion of the external audit is 30 September 2017, which will move forward to 31 July, from next year

The scope of our work and overall summary

The detailed scope of our work as your appointed auditor for 2016/17 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and include the matters outlined in the following table.

Financial statements	In our Audit Strategy Memorandum we reported that materiality for the financial statements as a whole was set at £24.627 million. We have updated our assessment as part of our continuous planning processes and have set materiality at £24.153 million. Our clearly trivial threshold for reporting matters to you has been set at £0.725 million. We communicated identified significant risks to you as part of our Audit Strategy Memorandum in February 2017. Section 2 of this report outlines the work we have undertaken for each significant risk. A draft auditor's report is provided in Appendix C. We are unable to issue the auditor's report until management have completed additional work on the floor area data used in the valuations of Land and Buildings. We provide further details of this later in the report.
Identified misstatements	Our work has so far identified a number of misstatements that have been discussed with management. A summary of the identified misstatements is provided in Appendix A. Our work is ongoing so there may be additional matters which we will need to report to the Audit Committee.
Value for Money	At the time of issuing this report we anticipate having no matters to report in respect of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. This is subject to the satisfactory conclusion of the remaining audit work.
Whole of Government Accounts (WGA)	We anticipate completing our work on your WGA submission, in line with the group instructions issued by the National Audit Office, by the deadline of 30 September 2017.

The status of our work

Working with Council officers we have attempted to complete the audit in line with the new statutory deadline which is effective in 2017/18. We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2017 in line with the early reporting deadline. At the time of preparing this report, the following significant matters remain outstanding. A verbal update on the progress in resolving these matters will be given at the meeting:

Property, Plant and Equipment	• Additional testing of the source data used in the valuation of assets. This is relates to the areas used in the valuation of assets. We have reported a deficiency in control later in this report and will provide an update on the work at the Audit Committee meeting. This will require further testing which will not be completed by the 31 July 2017 and will prevent us from issuing our opinion at this stage. • Fixed Asset Register to GL reconciliation. We are waiting for an updated reconciliation.
Income and expenditure testing	• We are yet to complete our consideration of the double counting adjustments made in the preparation of the accounts. • We have some work to complete for our cut off and completeness assurance, including agreement of year end control accounts.
Loans – direct confirmations	We are waiting for direct confirmation for one loan.
Cash Flow Statement	We have some outstanding queries to resolve with officers.

Debtors testing	We have a small number of outstanding items to conclude on in our detailed sample testing.
Creditors testing	We have a small number of outstanding items to conclude on in our detailed sample testing.
Financial Instruments	We have some outstanding queries to resolve with officers.
Pensions	We will complete testing when assurance from the Pension Fund auditor is received.
Collection Fund	We have a small number of tests to complete before we can conclude on the Collection Fund.
Closure procedures and review	We will complete our standard closure procedures, including review of the amended financial statements and consideration of post balance sheet events.
Whole of Government Accounts	We will complete the required procedures for the WGA return when the amended accounts are received.

We will provide a verbal update to you in relation to these outstanding matters at the 31 July 2017 Audit Committee meeting. A follow up letter detailing the results of the additional testing will be provided in September prior to giving our opinion.

Significant findings

This section sets out the significant findings from our audit and provides information on a number of matters that we are required to report to you by ISA 260 'Communication with those charged with governance'.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we will mitigate these risks. No new risks have been identified since we issued our Audit Strategy Memorandum. The significant risks identified, and our conclusions against each are outlined below.

Significant risk	How we addressed the risk	Audit conclusion
Management override of control In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	We addressed this risk by performing work in the following areas: • considered accounting estimates affecting amounts included in the financial statements; • considered significant transactions outside the normal course of business; • considered the selection and application of accounting policies; and • using a risk based approach, we tested journals recorded in the general ledger and considered other adjustments made in preparation of the financial statements.	Our work has identified no matters to report.
Revenue recognition There is a risk of fraud in financial reporting relating to income recognition due to the potential to inappropriately record revenue in the wrong period. ISA 240 allows the presumption of fraud relating to revenue recognition to be rebutted in exceptional circumstances, but given the Council's range of	We completed the following substantive procedures: • tested revenue items posted prior and post year end to ensure they have been recognised in the appropriate year; • tested adjustment journals; and • for major grant income, agreed amounts to third party documentation.	We identified some errors in the treatment of grant income but no material misstatement – see appendix A.

revenue sources we have concluded that there are insufficient grounds for rebuttal in 2016/17.		
Valuation of defined benefit pension scheme The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	We completed the following procedures: • evaluated the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and • challenged the reasonableness of the Actuary's assumptions that underpin the entries in the financial statements. We did this using an expert commissioned by the National Audit Office.	As noted above our work is ongoing. We will provide an update when we receive assurance from the Pension Fund auditor.

Identified key areas of management judgement

Area of management judgement	How we considered this judgement	Audit conclusion
Valuation of property, plant and equipment The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE. The value of the Council's PPE is material to the accounts and involve management judgements over the valuations and useful lives of assets.	We completed the following procedures : • considered the Council's arrangements for ensuring that PPE values are reasonable; • engaged our own expert to provide data to enable us to challenge the reasonableness of the valuations provided by the Council's valuer; • assessed the competence, skills and experience of the valuer and the instructions issued to the valuer; and • perform audit procedures on individual assets to ensure that the basis and level of valuation was appropriate	Our valuations testing identified several errors in the floor areas used in the valuation of assets. Further details of these errors and the impact are detailed in appendix A. At the time of preparing this report additional work is being completed by management. We will update members on this testing at the 31 July Audit Committee meeting, though completion of this work has prevented us from issuing our opinion at the stage.

Qualitative aspects of the Council's accounting practices

We are required to communicate to you our views on the significant qualitative aspects of the Council's accounting practices, including the accounting policies used and the quality of disclosures.

Qualitative aspect	Our views
Accounting policies and disclosures	We have reviewed the Council's accounting policies and disclosures and found these to be in line with the requirements of the Code of Practice on Local Authority Accounting (the Code). In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2017.
Quality of the draft financial statements	We received draft financial statements from management on 31 May 2017. This is one month ahead of the 2015/16 draft statements. A number of errors were identified and these are detailed in appendix A. Subject to these the accounts were of good quality.
Quality of supporting working papers	Producing high-quality working papers is as crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. Officer's provided good quality working papers to support the accounts.

Significant matters discussed with management

Group accounts: The Code of Practice on Local Authority Accounting, paragraph 9.1.1.6 states:

> 'Authorities with interests in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered not material.'

The Council has assessed its subsidiaries, associates and joint ventures and considers them to be not material either qualitatively and quantitatively. We have considered management's judgement and are satisfied that the accounts are not materially misstated as a result of this judgement. In the coming years the Council will need to ensure it updates assessment for any changes.

Significant difficulties during the audit

During the course of the audit we had the full co-operation of management. As reported above our testing of Land and Buildings valuations identified a number of errors in the floor area data used in valuation that require further testing of records before we can conclude the financial statements give a true and fair view on the financial position of the Council. We are therefore not in a position to issue our auditor's report in line with the earlier 31 July deadline until management have completed additional work to resolve the matters identified. The statutory deadline for issuing the auditor's report is the 30 September 2017.

Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

- **Priority 1 (high)**

  There is potential for financial loss, damage to reputation or loss of information. Weaknesses may have implications for the achievement of strategic objectives and our recommendations should be considered immediately by management.

- **Priority 2 (medium)**

  There is a need to strengthen internal controls or enhance efficiency. Our recommendations should be actioned in the near future.

- **Priority 3 (low)**

  Internal controls should be strengthened where practicable and where there is a cost benefit from doing so.

Other deficiencies in internal control – Priority 2

Description of deficiency	Our testing of land and buildings valuations identified errors in the areas recorded in the asset manager system for several council properties testing, in particular school buildings. In one case the whole second floor of a building had not been recorded. In another the asset system had not been updated and the valuation was based on the old school site which was no longer operational.
Potential effects	A significant amount of council properties are valued using the Depreciated Replacement Cost (DRC) method. DRC is calculated using area information. Inaccurate area information will therefore result in incorrect valuations. This increases the risk of the Property, Plant and Equipment figure being materially misstated on the Council's Balance Sheet.
Recommendation	The Council should ensure that area information is regularly reviewed and updated. There should be a process, in particular for schools, where the Asset Team are informed of any changes in property area.
Management response	Lessons have been learnt following the most recent School Valuations under the Capital Accounting Rolling Programme, processes will be updated with more defined and increased communications across all services a necessity

Other internal control recommendations – Priority 3

Description of deficiency	IT user access testing for leavers identified that in one case (from 25 tested) an individual employee still had access to Council IT systems after their leaving date. This occurred as the HR Turnover sheet, used to record leavers, had additional leavers added to the list after it was provided to the Service Direct team. The Service Direct team had already reviewed the list and created the ITBM call (which created the deactivation list) for that week. This meant the individual was not processed as a leaver. In two further cases (from 25 tested), we noted that leavers who were logged on ITBM had not been removed in a timely manner.
Potential effects	Leavers are not deactivated in a timely manner, meaning that inappropriate access to business critical systems would be possible. We do note, however, that this had not occurred in any case tested – no leavers had accessed the network, or any business critical system, following their leave date.
Recommendation	Processes should be in place to ensure that, once the HR list has been submitted to the Service Direct team: 1. Service Direct team monitors the timely removal of all leavers requiring deactivation, for example by adding an additional column to the deactivation spreadsheets to confirm which member of the team has deactivated each leaver, and on what date. 2. No-one in HR is able to make further amendments to the list once submitted to Service Direct
Management response	We are acting on the recommendation and changing the process for notifying leavers to ICT to ensure leavers are processed in a timely manner and to ensure the list cannot be amended. We are developing a new report to extract all leavers based on the date the change was processed rather than the leaving date. This will ensure that any back-dated leavers do not get missed.

Value for Money Conclusion

Our approach to Value for Money
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	The Council has a Constitution in place which is reviewed annually. The Constitution records the leadership and committee structure of the Council. A new Council structure has been introduced to adapt to the Council's future plans and challenges. This includes creation of the Transformation and Partnerships service and separate Children's and Adult service areas. The Council has an active Audit Committee who receive regular risk management reports. Key strategic risks are regularly reported. Internal Audit report progress and recommendations at every Audit Committee. Where necessary Committee Members challenge officers on internal control weaknesses. Internal Audit delivered its planned audit days in 2016/17. During the year there has been regular financial and performance reporting. Financial information includes details of outturn against budget and explanations for any variances. Medium Term Financial Plan progress reports were presented to the Cabinet for each quarter. Key target indicators and key tracker indicators are used to track performance across the Councils 'Altogether' priority themes. Scrutiny, including	Yes

	the Overview and Scrutiny Management Board, was in place to challenge the financial and operational performance of the Council, including at individual services. The Quality Improvement Board has monitored the delivery of the Ofsted Improvement Plan. Updates have also been provided to the Cabinet during 2016/17.	
Sustainable resource deployment	The Council delivered a surplus in 2016/17, including delivery of just over £28 million of planned savings. This is consistent with recent financial performance of the Council. As at the 31 March 2017 the Council reported £23m General Fund and £233m earmarked reserves. This includes a Business Support Reserve which is intended to support the delivery of future Medium Term Financial Plan's (MTFP). MTFP(6) was presented to Council in February 2016 and MTFP (7) in February 2017. Both ahead of the start of the financial year and after consultation and scrutiny. An update on MTFP (8) was provided to the July 2017 Cabinet. Development of the Transformation Programme continued in 2016/17. The programme is intended to focus on how services are delivered and ensuring outcomes are appropriate. A capital plan is in place and was progress against the plan was reported during the year. The Capital Member Officer Working Group (MOWG) was in place during the year to monitor delivery of the Capital Plan. Staff indicators, including sickness levels, are reported within the regular performance management reporting. Staff surveys have also been conducted and results analysed.	Yes
Working with partners and other third parties	The Council's Constitution details the arrangements for contracting with third parties. Where appropriate partnerships are monitored through Council performance reporting arrangements. Area Action Partnerships are intended to give local residents a voice in how services are provided locally. Consultation with partners feeds into the Council's MTFP development. The County Durham Partnership is in place bringing together key partners in the County. The Health and Well-being Board is responsible for the Durham Better Care Fund plan. Financial and health outcome performance of the plan is monitored. The Council has written procedures for procuring products and services, which are within its constitution.	Yes

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that no significant Value for Money risks had been identified. We did, however, identify areas of additional work. The additional work we carried out is outlined below.

Area of additional work	Work undertaken	Conclusion
Sustainable resource deployment Our audit work in previous years concluded that the Council has arrangements in place for medium term financial planning. We are not aware of any matters to suggest a significant change in arrangements. The Council continues to face financial pressure in the coming years and the Council updating its medium term financial plan (MTFP) to meet these pressures. We need to ensure our knowledge of the Council's MTFP arrangements and its monitoring of the planned delivery of savings, remains up to date in order to ensure we give the correct VFM conclusion.	We completed the following work: • documented how the Council has developed its MTFP; • reviewed the delivery of 2016/17 savings against plans; • reviewed the arrangements for 2017/18 savings; • reviewed the arrangements for the Transformation Programme; and • reviewed the arrangements for identifying savings in 2018/19 to 2019/20	We identified no matters to suggest a significant value for money risk.

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix C states that we intend to issue an unqualified Value for Money conclusion for the 2016/17 financial year.

Appendix A – Summary of misstatements

The misstatements identified for adjustment during the course of the audit that are above the trivial level of £0.725 million are set out below.

The first table outlines the identified misstatements which management has assessed as not being material, either individually or in aggregate to the financial statements, and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2016/17					
		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Other operating expenditure: losses on disposal of non-current assets*	4,050			
	Cr: Property, Plant and Equipment: Land and Buildings				4,050
	Our testing of the gain and losses on disposal of non-current assets identified two assets which are included in the 2016/17 accounts but relate to assets disposed in March 2016. As a result the 2015/16 loss on the disposal of non-current assets charged to other operating expenditure is overstated. We discussed with officers who explained the tight year end close down period means capital journals are posted near to the year end. Given neither of the disposals were material it is not the current policy to amend the capital journals. To confirm this approach did not risk a material misstatement we extrapolated the errors identified against the whole population. An extrapolated error of £4.543 million has been calculated. The above details the impact of this on the current year financial statements. We have completed testing of disposals made in March, April and May 2017 to see if there is any indication of a material omission. This testing did not identify any material disposals omitted from the 2016/17 statements. Whilst the year-end balance sheet position of Property, Plant and Equipment (PPE) is correct the brought forward figures (cost/valuation and accumulated depreciation) disclosed in note 14 will be overstated – the above shows the potential net position of the overstatement. *there were no sale proceeds associated with either of the two disposals.				
2	Dr: Net cost of services: Gross expenditure	1,782			
	Cr: Net cost of services: Gross income		1,782		

	Our grant income testing (note 38) identified errors associated with the Skills Funding Agency grant. The Council have amended for this individual error, however given the error was part of our sample testing we have extrapolated to determine the potential impact on the population we tested. This generated an extrapolated error of £1.782 million. If this error had been duplicated the population the impact would be as above.				
3	Dr: CIES: Children and Young People's Services	1,104			
	Dr: Revaluation reserve			978	
	Cr: Other Operating Expenditure		2,082		
	Dr: Capital adjustment account			1,104	
	Cr: Movement in reserves		1,104		
	Our disposals testing identified that the demolition of the components of the Durham Free School site had been treated inconsistently. One component had been treated as an impairment whilst another had been treated as a disposal. The Council confirmed the asset should have been impaired prior to its demolition. As a result an incorrect charge of £2.082 million was made to Other Operating Expenditure (loss on the disposal of non-current assets) rather than a charge of £1.104 million to net cost of services (Children and Young People's Services). The remainder of the balance, £0.978 million, should have been reflected in the revaluation reserve where a balance associated with this component existed. The overall impact on the general fund is nil given the charge to the CIES is reversed out through the Movement in Reserves (Adjustment between accounting basis and funding basis under regulations). We have reviewed other demolitions during the year and have confirmed there were no other errors of this nature.				
4	**Note 1, Accounting policy 21 PPE** A de minimis level for PPE accounting is not disclosed in accounting policies as required by the Code (para 4.1.4.1)				

Adjusted misstatements 2016/17					
		Comprehensive Income and Expenditure Statement		**Balance Sheet**	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Long Term Provisions			4,967	

	Cr: Short Term Provisions				4,967
	Review of the non-domestic rates appeals provision suggested that it was not appropriate to treat 100% of the provisions as long term.				
2	Dr: Cash and cash equivalents: current liabilities			1,953	
	Cr: Cash and cash equivalents: current assets				1,953
	The Code paragraph 3.4.2.14 states that cash and cash equivalents shall include bank overdrafts that are an integral part of an authority's cash management.' and Code Guidance paragraph 3.4.2.77 states bank overdrafts are shown separately as liabilities in the Balance Sheet only where they are not an integral part of an authority's cash management. If the overdraft at 31 March arises on a bank balance that fluctuates between being in credit and overdrawn then it should be netted off against Cash and Cash Equivalents (asset). The prior year figure has also been amended. The overdraft is not borrowing and so should be included in cash and cash equivalents balance in current assets.				
3	Dr: Financing and Investment Income and Expenditure (gross income)	86,922			
	Cr: Financing and Investment Income and Expenditure (gross expenditure)		86,922		
	Code Guidance Notes, paragraph I73, states that the trading deficit/surplus in the Financing and Investment Income and Expenditure (FII&E) line of the CIES will only contain 'trading account balances arising from external trading activity not covered by the service expenditure analysis or balances attributable to under or over-recovery of internal recharges where reapportionment would not have had a material effect on total costs'. Given a large proportion of the trading activity is internal it is not appropriate to treat this as gross expenditure and gross income in the FII&E . SERCOP guidance (2.37.5) states 'Where a support service/internal trading account has a year-end balance attributable to under or over-recovery of internal recharges, then the balance should be reapportioned to services, if doing so would have a material effect on total cost figures – the cost of the activity will then be absorbed fully by all its client services'. With the above adjustment the net surplus or deficit on the trading activity reflected in the FII&E is £2.206m. This is a mixture of internal and external trading surplus. Given the amount is not material we are satisfied there isn't a material impact on the net cost of services. There is no impact on the overall surplus or deficit on provision of services. The prior year figures have also been adjusted. This is £78.192 million adjustment to gross income and gross expenditure.				
4	Dr: CIES: Children and Young People's Services	3,046			
	Dr: Revaluation Reserve			7,633	
	Cr: Property, Plant and Equipment				10,624
	Cr: Movement in reserves		3,046		

	Dr: Capital Adjustment Account			2,991	
	Our Property, Plant and Equipment testing identified that Seaham School of Technology has not been impaired during the year despite no longer being operational. This was still reflected in the Council balance sheet as at 31 March 2017. Also the asset, despite being operational for part of the year, was not revalued by the valuer as at 1 April 2017.				
5	Dr: Other Long Term Liabilities			1,120,277	
	Cr: Pension liability				1,120,277
	Other long term liabilities was amended to separately disclose the pension liability of £1,120.277 million which is a material amount.				
6	Dr: CIES: Children and Young People's Services: Skills Funding - Gross expenditure	1,430			
	Cr: CIES: Children and Young People's Services: Skills Funding - gross income		1,430		
	Our testing of grant income note 38 identified an error in the Skills Funding Agency grant income. The actual income in year was £2.896 million. This error impacts on the gross income and gross expenditure shown in the CIES. This error was selected in our sample testing and whilst the Council have chosen to amend we have extrapolated the error to determine the impact if the error was repeated. This extrapolation is detailed in the above unadjusted error table – error 2.				
7	Dr: CIES: Children and Young People's Services: Skills Funding - gross income	2,108			
	Cr: CIES: Children and Young People's Services: Skills Funding - gross expenditure		2,108		
	An error was identified in the treatment of the PFI Service charge. This resulted in gross income and gross expenditure being overstated. There was no impact on the net expenditure.				
8		**Collection Fund Income and Expenditure Account**			
		Dr (£'000)		Cr (£'000)	
	Dr: 113 Towns and Parishes and 1 Charter Trust (Precepts and Demands)	11,513			
	Cr: Durham County Council (Precepts and Demands)			11,513	
	The £11.513m of town and charter trust precepts were incorporated into the Durham County Council figures. This treatment is in line with the Code.				

Disclosure amendments
The following disclosure amendments were made:

Note 7, Expenditure and Funding Analysis: Paragraph 3.4.2.99 of the Code requires a disclosure of segmental income. This disclosure has been added to note 7.

Note 8, Expenditure and Income Analysed by Nature: Following the error identified in treatment of trading income and expenditure the figures in the note have been amended. Also the Council have classified items previously disclosed as several lines into one category - 'other service expenditure'. This treatment is not inconsistent with the Code requirements.

Note 14, Capital Commitments: A number of previously unidentified capital commitments have been added to the disclosure. Comparative year figures have also been added.

Note 14, Property, Plant and Equipment (PPE): The note has been amended to reflect some misclassifications between asset categories and lines. This included a movement of additions from Land and Buildings to Assets Under Construction – the impact of this adjustment was £1.4 million. Other amendments were individually trivial. None of these adjustments had an impact on the balance sheet figure for PPE.

Note 14, Property, Plant and Equipment (PPE): The note was amended to show impairment losses/reversals, charged to the surplus or deficit on the provision of services and to the revaluation reserve in the financial year. This is a requirement of paragraph 4.7.4.2(1) of The Code.

Note 27 and 3, Cash Flow Statement: Some amendment to the disclosures were made for non-cash items.

Note 35, Officers' Remuneration; The note was amended to document that the role of Corporate Director was split between two individuals in the financial year 2016/17.

Note 36, External Audit Costs; some minor amendments were made to the presentation and figures relating to external audit services.

Note 39, Grant and contribution income credited to services: Pupil Premium figure corrected to show £20.435m following a £0.753m adjustment.

Note 39, Related Parties: The loan to Durham County Cricket Club has been added to the disclosure note. There were some minor amendments to the wording of the note.

Note 47, Contingent liabilities: A contingent liability relating to claims made by NHS Trusts and Foundation Trusts for non-domestic rating relief has been removed. Upon review this did not meet the criteria of a contingent liability.

Note 52, Prior Period Adjustments (PPAs): The note has been amended to include narrative explaining why the comparative net cost of services totals have been restated in the year.

Housing Revenue Account: the HRA account and supporting notes have been removed given there were no in year transactions. A narrative note explaining that the HRA has closed has been included.

Other amendments: There was a small number of non-material disclosure misstatements which have been corrected by management. These were mainly spelling, grammatical, referencing, rounding, terminology and typographical amendments.

Appendix B – Draft management representation letter

Durham County Council
County Hall
Durham
DH1 5UL
Insert date

Dear Mark

Durham County Council - audit for year ended 31 March 2017

This representation letter is provided in connection with your audit of the statement of accounts for Durham County Council (the Council) for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Corporate Director of Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value
I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies
There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error
I acknowledge my responsibility as Corporate Director of Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
    - management and those charged with governance;
    - employees who have significant roles in internal control; and
    - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions
I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with

the requirements of the Code.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review
To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments
I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Service Concession Arrangements
I am not aware of any material contract variations, payment deductions or additional service charges in 2016/17 in relation to the Council's PFI schemes that you have not been made aware of.

Subsequent events
I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern
To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements
I confirm that the effects of the uncorrected misstatements as included in the auditor's draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Yours sincerely

Corporate Director of Resources

Date……

Appendix C – Draft audit report

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

Opinion on the Durham County Council financial statements

We have audited the financial statements of Durham County Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Durham County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Durham County Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Corporate Director Resources and auditor

As explained more fully in the Statement of the Corporate Director Resources' Responsibilities, the Corporate Director Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Durham County Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters
In our opinion, the information given in the Narrative Report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

Matters on which we report by exception
We report to you if:

- in our opinion the Annual Governance Statement does not comply with Delivering Good Governance in Local Government: Framework (2016);
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Report on the Pension Fund financial statements

We have audited the Durham County Council pension fund pension fund financial statements for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Durham County Council as a body in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Durham County Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Corporate Director Resources and auditor
As explained more fully in the Statement of the Corporate Director Resources; Responsibilities, the Corporate Director Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund financial statements, in accordance with proper practices as set out in the

CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts and Annual Governance Statement] to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Pension Fund financial statements

In our opinion the Pension Fund's financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Authority's Statement of Accounts and Annual Governance Statement for the financial year for which the financial statements are prepared, is consistent with the financial statements.

Conclusion on Durham County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Durham County Council and the auditor

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

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We are required to conclude whether the Authority has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the Comptroller and Auditor General, and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General, we are satisfied that in all significant respects, Durham County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of Durham County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[*Signature*]

Mark Kirkham

For and on behalf of Mazars LLP
Salvus House,
Aykley Heads,
Durham
DH1 5TS

Appendix D – Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

During the audit the following issues arose which could be perceived as a threat to our independence. The table below details these potential threats and the safeguards put in place to mitigate the risk.

Independence issue	Perceived threats and safeguards
Assurance on Skills Funding Agency arrangements Fee: £2,000	We have considered threats and safeguards for all grants work as follows: - **Self Review**: The review does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars. - **Self Interest**: The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis. - **Management**: The work does not involve Mazars making any decisions on behalf of management. - **Advocacy**: The work does not involve Mazars advocating the Council to third parties. - **Familiarity**: Work is not deemed to give rise to a familiarity threat. - **Intimidation**: The nature of the work does not give rise to any intimidation threat from management to Mazars.

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Audit Committee

31 July 2017

External Audit – Pension Fund Audit Completion Report Year Ended 31 March 2017

Report of the External Auditor

Purpose of the Report

1. The Committee is asked to note the contents of the attached External Auditor report on the completion of the audit of the statement of accounts for the Pension Fund for year ended 31 March 2017.

Background

2. This report illustrates the findings of the external audit completed by Mazars for the year ended 31 March 2017 for the Pension Fund.
3. The audit has been completed in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board.

Summary of audit progress

4. Our work on the audit is substantially complete. At the time of writing our audit procedures are ongoing in the following areas:
    - Investment purchases and sales, and classification of change in market value.
    - Financial instruments.

Recommendation

5. The Committee is requested to:
    - Note the adjustments to the financial statements included at Appendix A of the report.
    - Approve the management representation letter at Appendix B on behalf of the Council before the opinion and conclusion are issued.

Contact: Sharon Liddle **Tel: 03000 26745203000 264 970**

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing
None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

Statutory approval of the accounts

Audit Completion Report

Durham County Council Pension Fund

For the year ended 31 March 2017

MAZARS

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1. Executive summary

Purpose of this report

The Audit Completion Report sets out the findings of our audit of Durham County Council Pension Fund (the Pension Fund) for the year ended 31 March 2017, and forms the basis for discussion at the Audit Committee meeting on 31 July 2017.

The scope of our work and overall summary

The detailed scope of our work as your appointed auditor for 2016/17 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and include the matters outlined in the following table.

Financial statements	In our Audit Strategy Memorandum we reported that materiality for the financial statements as a whole was set at £11.04m. We have updated our assessment as part of our continuous planning processes and have set materiality at £11.41m. Our clearly trivial threshold for reporting matters to you has been set at £0.34m. We communicated the significant audit risks to you as part of our Audit Strategy Memorandum in February 2017. Section 2 of this report outlines the work we have undertaken, and the conclusions we have reached, for each significant risk. At the time of issuing this report, and subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified opinion, without modification, on the financial statements. Our draft auditor's report is provided in Appendix C.
Identified misstatements	Our work identified a number of misstatements that have been discussed with management. A summary of the identified misstatements is provided in Appendix A. Our work is ongoing so there may be additional matters which we will need to report to the Audit Committee.

The status of our work

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2017.

At the time of preparing this report, the following significant matters remain outstanding:

Investments (note 14 disclosure)	Our work on year end investment valuation is complete but we are yet to complete our work on investment purchases and sales, and classification of change in market value.
Financial Instruments (note 15 disclosure)	Our work on classification of financial instruments between levels is not complete.
Closure procedures and review	We will complete our standard closure procedures, including review of the amended financial statements and consideration of post balance sheet events.

We will provide an update to you in relation to these outstanding matters in a follow up letter prior to giving our opinion.

2. Significant findings

This section sets out the significant findings from our audit and provides information on a number of matters that we are required to report to you by ISA 260 'Communication with those charged with governance'.

Significant risks

As part of our planning procedures we considered the risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we will mitigate these risks. No new risks have been identified since we issued our Audit Strategy Memorandum. The significant risks identified, and our conclusions against each are outlined below.

Significant risk	How we addressed the risk	Audit conclusion
Management override of control International Standards on Auditing 240 – *The auditor's responsibility to consider fraud in an audit of financial statement* (ISA 240) requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud. In all entities, management at various levels within an organisation is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	We addressed this risk by: • reviewing accounting estimates affecting amounts included in the financial statements; • reviewing and considering any significant transactions outside the normal course of business; and • applying a risk based approach to journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Valuation of unquoted investments for which a market price is not readily available As at 31 March 2017, the fair value of investments which were not quoted on an active market was £165 million, which accounted for 6% of the Fund's net investment assets. As prices for these investments are not quoted in active markets, the values used in the accounts are those provided by fund managers mostly based on Net Asset Value statements, although in some cases are based on forward looking estimates and judgements involving many factors. This results in an increased risk of material misstatement.	In addition to our standard programme of work in this area we agreed valuations provided by fund managers to evidence for individual funds including: • audited accounts; • investment manager valuation statements; and • cashflows.	Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Qualitative aspects of the Pension Fund's accounting practices
We are required to communicate to you our views on the significant qualitative aspects of the Pension Fund's accounting practices, including the accounting policies used and the quality of disclosures.

Qualitative aspect	Our views
Accounting policies and disclosures	We have reviewed the Pension Fund's accounting policies and disclosures and found these to be in line with the requirements of the Code of Practice on Local Authority Accounting (the Code). In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2017.
Quality of the draft financial statements	We received draft financial statements from management on 24 May 2017. The draft financial statements were of a good standard.
Quality of supporting working papers	Producing high-quality working papers is as crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. The supporting working papers were readily available to the audit team and were also of a good standard.

Significant difficulties during the audit
During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

3. Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

- **Priority 1 (high)**

  There is potential for financial loss, damage to reputation or loss of information. Weaknesses may have implications for the achievement of strategic objectives and our recommendations should be considered immediately by management.

- **Priority 2 (medium)**

  There is a need to strengthen internal controls or enhance efficiency. Our recommendations should be actioned in the near future.

- **Priority 3 (low)**

  Internal controls should be strengthened where practicable and where there is a cost benefit from doing so.

Significant deficiencies in internal control

Other than as noted below, we have identified no issues to report.

As part of our audit we completed a review of IT general controls in conjunction with a review undertaken at Durham County Council. One low priority issue, identified and reported to the Audit Committee in the Durham County Council Audit Completion Report, is applicable to the Pension Fund. The issue identified was that leavers are not always deactivated in a timely manner, meaning that inappropriate access to business critical systems would be possible.

We do note, however, that this had not occurred in any case tested – no leavers had accessed the network, or any business critical system, following their leave date.

Appendix A – Summary of misstatements

The misstatements identified for adjustment during the course of the audit that are above the trivial level of £0.34m, are set out below.

The first table outlines the identified misstatements which management has assessed as not being material, either individually or in aggregate to the financial statements, and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2016/17
There are no identified misstatements above our trivial level of £0.34m that management have not adjusted.

Primary statements

Adjusted misstatements 2016/17					
		Fund Account		Net Assets Statement	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Investment Income (Fund Account)	1,740			
	Cr: Profit and losses on disposal of investments and change in market value of investments (Fund Account)		1,740		
	Adjustment for sale of investment which the fund manager had shown as income in the report provided to the Pension Fund. An amendment has been made to notes 12 (investment income) and 14 (investments) in this regard.				
2	Dr: Investment Income (Fund Account)	407			
	Cr: Profit and losses on disposal of investments and change in market value of investments (Fund Account)		407		
	Adjustment for accrued interest on fixed interest purchases and sales. An amendment has been made to notes 12 (investment income) and 14 (investments) in this regard.				

Disclosure amendments

Adjusted misstatements 2016/17					
		Fund Account		**Net Assets Statement**	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Note 14 Analysis of Investments – Pooled Investment Vehicles (Unit Trusts – property – UK unquoted)			5,208	
	Cr: Note 14 Analysis of Investments – Pooled Investment Vehicles (Unit Trusts – property – Overseas unquoted)				5,208
	Correction in respect of CBRE UK unquoted investments that were recognised at cost rather than market value, with an equal and opposite impact on overseas unquoted investments.				
2	Dr: Note 12 Investment Income – Interest on cash deposits	636			
	Cr: Note 12 Investment Income – Interest from bonds		636		
	Correction of Blackrock accrued bond interest included in interest on cash rather than interest on fixed interest deposits.				
3	Dr: Note 12 Investment Income – Dividends from equities	377			
	Cr: Note 12 Investment Income – Income from pooled investment vehicles		377		
	Correction of income from pooled investment vehicle included in equity income.				
4	Dr: Note 15 – Classification of financial instruments: financial assets held as loans and receivables			5,476	
	Cr: Note 15 – Classification of financial instruments: financial assets held at fair value through profit and loss				5,476
	Movement of investment debtors from FVPL to loans and receivables. An amendment of £15,681k will be made to the comparative in this regard.				

Adjusted misstatements 2016/17					
		Fund Account		Net Assets Statement	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
5	Dr: Note 15 – Classification of financial instruments: financial liabilities held at fair value through profit and loss			1,981	
	Cr: Note 15 – Classification of financial instruments: financial liabilities held at amortised cost				1,981
	Movement of investment creditors from FVPL to loans and financial liabilities at amortised cost. An amendment of £9,476k will be made to the comparative in this regard.				
6	Dr: Note 15 Financial assets at fair value through profit and loss level 2			2,893	
	Cr: Note 15 Financial assets at fair value through profit and loss level 1				2,893
	Correction of classification of derivative assets that are not derived from quoted prices in active markets. An amendment of £8,418k will be made to the comparative in this regard. Noted that the value of this adjustment has not been subject to audit at the time of writing.				
7	Dr: Note 15 Financial liabilities at fair value through profit and loss level 1			2,076	
	Cr: Note 15 Financial liabilities at fair value through profit and loss level 2				2,076
	Correction of classification of derivative liabilities that are not derived from quoted prices in active markets. An amendment of £11,886k will be made to the comparative in this regard. Noted that the value of this adjustment has not been subject to audit at the time of writing.				
8	Dr: Note 14 – Forward foreign currency purchases			139,497	
	Cr: Note 14 – Forward foreign currency sale proceeds				90,544
	Cr: Note 14 – Other cash deposits change in market value				48,953
	Correction of omitted FFC transactions. Amendments of £70,728k, £56,678k and £14,050k will be made to the comparatives for FFC purchases, FFC sales proceeds and cash CIMV respectively in this regard. Noted that the value of the adjustment to the comparative figures has not been subject to audit at the time of writing.				

Adjusted misstatements 2016/17					
		Fund Account		Net Assets Statement	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
9	Dr: Note 15 – Valuation of financial instruments carried at fair value: Level 1			357,972	
	Cr: Note 15 – Valuation of financial instruments carried at fair value: Level 2				357,972
	Dr: Note 14 – Analysis of investments: Managed funds – non property – overseas quoted			357,972	
	Cr: Note 14 – Analysis of investments: Managed funds – non property – overseas unquoted				357,972
	Movement of Alliance Bernstein diversified yield fund unquoted to quoted, and from Level 2 to Level 1 financial instruments. An amendment of £341,874k will be made to the comparative in this regard.				

Appendix B – Draft management representation letter

Durham County Council Pension Fund
County Hall
Durham
DH1 5UL
31 July 2017

Dear Mark

Durham County Council Pension Fund - audit for year ended 31 March 2017

This representation letter is provided in connection with your audit of the statement of accounts for Durham County Council Pension Fund ('the Pension Fund) for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Pension Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Corporate Director Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Pension Fund and Committee meetings, have been made available to you.

Accounting policies
I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Pension Fund's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value
I confirm that any significant assumptions used by the Pension Fund in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies
There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Pension Fund have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

Laws and regulations
I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Pension Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error
I acknowledge my responsibility as Corporate Director Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Pension Fund involving:
    - management and those charged with governance;
    - employees who have significant roles in internal control; and
    - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Pension Fund's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions
I confirm that all related party relationships, transactions and balances,

have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Pension Fund's related parties and all related party relationships and transactions of which I am aware.

Future commitments
I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events
I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern
To the best of my knowledge there is nothing to indicate that the Pension Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements
I confirm that the effects of the uncorrected misstatements as included in the auditor's draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Specific representation on unquoted investments

Unquoted investments are included in the net assets statement at the value provided by our fund managers which have been estimated in accordance with the guidelines used by the industry, and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, with the valuations, and am not aware of any subsequent events that would have a material impact on the estimated value of the unquoted investments.

Yours sincerely

Corporate Director Resources

Date……

Appendix C – Draft audit report

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

Opinion on the Durham County Council financial statements

We have audited the financial statements of Durham County Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Durham County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Durham County Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Corporate Director Resources and auditor

As explained more fully in the Statement of the Corporate Director Resources' Responsibilities, the Corporate Director Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Durham County Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters
In our opinion, the information given in the Narrative Report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

Matters on which we report by exception
We report to you if:

- in our opinion the Annual Governance Statement does not comply with Delivering Good Governance in Local Government: Framework (2016);
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Report on the Pension Fund financial statements

We have audited the Durham County Council pension fund pension fund financial statements for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Durham County Council as a body in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Durham County Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Corporate Director Resources and auditor
As explained more fully in the Statement of the Corporate Director Resources; Responsibilities, the Corporate Director Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts and Annual Governance Statement] to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Pension Fund financial statements

In our opinion the Pension Fund's financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Authority's Statement of Accounts and Annual Governance Statement for the financial year for which the financial statements are prepared, is consistent with the financial statements.

Conclusion on Durham County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Durham County Council and the auditor

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

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We are required to conclude whether the Authority has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the Comptroller and Auditor General, and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General, we are satisfied that in all significant respects, Durham County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of Durham County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[*Signature*]

Mark Kirkham

For and on behalf of Mazars LLP
Salvus House,
Aykley Heads,
Durham
DH1 5TS
31 July 2017

Appendix D – Draft Consistency Report

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF DURHAM COUNTY COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the Pension Fund financial statements for the year ended 31 March 2017, which comprise the Fund Account, the Net Assets Statement and the related notes.

This report is made solely to the members of Durham County Council, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of Durham County Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Durham County Council as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director Resources and the auditor

As explained more fully in the Statement of the Corporate Director Resources' Responsibilities, the Corporate Director Resources is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of Durham County Council as a body, our opinion on the consistency of the Pension Fund financial statements within the Pension Fund Annual Report with the Pension Fund financial statements in the Statement of Accounts of Durham County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We also read the other information contained in the Pension Fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Pension Fund financial statements. The other information consists only the Introduction, Management and Financial Performance Report, Investment Policy and Performance Repot, Statement of the Actuary, Governance Compliance Statement, Funding Strategy Statement, Investment Strategy Statement, Communications Policy Statement, Participating Bodies and Contribution Rates, and Membership Statistics.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion[*s*] on those financial statements.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the full annual Statement of Accounts of Durham County Council for the year ended 31 March 2017 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

[*Signature*]

Mark Kirkham

For and on behalf of Mazars LLP
Salvus House,
Aykley Heads,
Durham
DH1 5TS
31 July 2017

Appendix E – Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.