AUDIT AND GOVERNANCE COMMITTEE

AGENDA

HARTLEPOOL BOROUGH COUNCIL

Wednesday 19 July, 2017

at 10.00 am

in Committee Room B
Civic Centre, Hartlepool

MEMBERS: AUDIT AND GOVERNANCE COMMITTEE

Councillors Belcher, Cook, Hall, Hamilton, Harrison, Martin-Wells and Tennant.

Standards Co-opted Members; Mr Stan Cronin, Mr Norman Rollo and Ms Clare Wilson.

1. **APOLOGIES FOR ABSENCE**

2. **TO RECEIVE ANY DECLARATIONS OF INTEREST BY MEMBERS**

3. **MINUTES**

   3.1 To confirm the minutes of the meeting held on 21 June 2017 (to follow).

4. **AUDIT ITEMS**

   4.1 The 2016/2017 Financial Report (Including the 2016/17 Statement of Accounts) – *Director of Finance and Policy*
   4.2 Internal Audit Plan 2017/18 Update – *Head of Audit and Governance*
   4.3 Local Audit and Accountability Act Update – *Director of Finance and Policy*
   4.4 Letter to Those Charged With Governance – Compliance with Laws and Regulations / Fraud – *Assistant Director, Finance and Customer Services*

5. **STANDARDS ITEMS**

   None.

6. **STATUTORY SCRUTINY ITEMS**

   6.1 Care Quality Commission - Consultation on the Next Phase of Regulation – *Statutory Scrutiny Officer*

7. **MINUTES FROM THE RECENT MEETING OF THE HEALTH AND WELLBEING BOARD**

7.1 To receive the minutes of the meeting held on 13 March, 2017.

8. **MINUTES FROM THE RECENT MEETING OF THE FINANCE AND POLICY COMMITTEE RELATING TO PUBLIC HEALTH**

No items.

9. **MINUTES FROM RECENT MEETING OF TEES VALLEY HEALTH SCRUTINY JOINT COMMITTEE**

No items.

10. **MINUTES FROM RECENT MEETING OF SAFER HARTLEPOOL PARTNERSHIP**

No items.

11. **REGIONAL HEALTH SCRUTINY UPDATE**

12. **ANY OTHER BUSINESS WHICH THE CHAIR CONSIDERS URGENT**

For information: -

Date and time of forthcoming meetings –

Wednesday 20 September, 2017 at 10.00 am
Wednesday 25 October, 2017 at 10.00 am
Wednesday 15 November, 2017 at 10.00 am
Wednesday 6 December, 2017 at 10.00 am
Wednesday 24 January, 2018 at 10.00 am
Wednesday 14 February, 2018 at 10.00 am
Wednesday 14 March, 2018 at 10.00 am
Wednesday 25 April, 2018 at 10.00 am

AUDIT AND GOVERNANCE COMMITTEE

MINUTES AND DECISION RECORD

21 JUNE 2017

The meeting commenced at 10.00 am in the Civic Centre, Hartlepool.

Present:

Councillor Ray Martin-Wells (In the Chair).

Councillors: Rob Cook, Gerard Hall, Brenda Harrison and John Tennant.

In accordance with Council Procedure Rule 5.2 (ii), Councillor Carl Richardson was in attendance as substitute for Councillor Lesley Hamilton.

Co-opted Members:
Parish Councillor R J Thompson, Elwick Parish Council
Mr Stan Cronin (Observer).

Also Present: Karen Hawkins and Rebecca Thomas, Hartlepool and Stockton NHS Clinical Commissioning Group
Dr Carl Parker, Ann Hepplewhite and Emily Orchestron-Findlay, McKenzie Group Practice.

Officers: Clare Clark, Head of Community Safety and Engagement
Rachel Parker, Community Safety Research Officer.
Kate Ainger, Projects Officer
Joan Stevens, Scrutiny Manager
David Cosgrove, Democratic Services Team

1. Apologies for Absence

Councillors Sandra Belcher and Lesley Hamilton.
Co-opted Members Norman Rollo and Clare Wilson.

2. Declarations of Interest

Parish Councillor R J Thompson declared a personal interest.

3. Minutes of the meeting held on 27 April 2017

Confirmed.

4. Introduction to Scrutiny (*Statutory Scrutiny Officer*)

The Statutory Scrutiny Officer presented a report which gave an overview of the role and functions of the Audit and Governance Committee in fulfilling its statutory scrutiny responsibilities.

Recommended

That the report be noted.

5. Assisted Reproduction Unit - Update (*Representatives from Hartlepool and Stockton-on-Tees Clinical Commissioning Group)*

The representatives from the Hartlepool and Stockton-on-Tees Clinical Commissioning Group updated the Committee on the implementation of the revised pathways for Access to the assisted reproduction units both at North Tees and Newcastle and Gateshead and the facility for much of the treatment to be undertaken at Hartlepool University Hospital. The pathways still needed to be ratified by each of the individual organisations and this was expected shortly.

As North Tees and Hartlepool NHS Foundation Trust (NTHFT) no longer held the appropriate license, arrangements had to be made to transfer the stored materials, such as embryos and meetings were taking place on the appropriate handover arrangements. Until these arrangements had been settled, the new revised pathways could not be implemented. However, new patients were being offered the choice of services across all three sites. A further report will be made to this committee when the new pathways were finally agreed and communication of those was to be undertaken. It was, however, positive to news to have Newcastle and Gateshead Trust coming in to offer these services in Hartlepool. Feedback from patients would be monitored to ensure the transition was being managed well and any adverse feedback would be followed up; no complaints had been received to date.

The Chair confirmed he had received no complaints though did ask for confirmation that existing patients were being kept up-to-date. Any gaps in information may only be weeks or a month to a Trust but that could seem like forever to a patient. Could the CCG also confirm that existing patients had been told their embryos were safe. The CCG representative confirmed that the Trust had confirmed communication with the patients and the meeting later today in relation to the storage of embryos would lead to further communication on that element.

Recommended

1. That the update be noted.

2. That a further report be presented to the Committee in August / September to provide:
   - An update on the agreed process for the transfer and storage of materials, including embryos pathways; and
   - Details of the communications undertaken with patients in relation to these new arrangements.

6. APMS Contract - Update (*Representatives from Hartlepool and Stockton-on-Tees Clinical Commissioning Group*)

The representative from the Hartlepool and Stockton-on-Tees Clinical Commissioning Group gave a presentation to the Committee updating Members of the outcome of the procurement procedure for the APMS (Alternative Provider Medical Services) contract which had led to a successful bid from the McKenzie Group Practice to provide the services for the Fens, Wynyard Road and Hartfields surgeries. The mobilisation period ahead of the commencement of service on 1 July had commenced on 7 April.

Meetings had been held with the new provider to clarify the service provision and meetings had also be held with existing providers to arrange the hand over procedures. The CCG had also responded to patient queries in relation to the change in services both directly with individuals and through collective patient update letters.

Dr Carl Parker from the McKenzie Group Practice gave a presentation to the Committee updating Members on the progress so far in implementing the new contract including the meetings held with the patient participation groups at Fens, Wynyard and Hartfields. The Group had responded to patient concerns in relation to the changeover of services and telephone access and a letter was to be sent to all patients with information and frequently asked questions. The McKenzie Group Practice would, after the mergers, be providing services to over 27,000 people in Hartlepool, and substantial increase from the current 20,000 patients. The Group considered that this gave an opportunity to provide a sustainable and resilient service.

Meetings had been held with staff at the three sites around the changes to contracts of employment and other issues. Formal measures letters had been issued to all appropriate staff on 1 June. Issues with premises and the closure of Fens had also to be dealt with.

One of the services being transferred was the violent patients' service which would be based at Wynyard Road. This would probably require some building alterations that would need to be discussed with the premises operator.

One of the major concerns related to the merger of IT systems which were out of the hands of the Group. While all three practices used the same operating system, final integration would not be finalised with the national provide until 15 November for Fens and Wynyard Road and 27 November for Hartfields. Until those dates, online services would not be able to be offered to all the new patients until 1 December.

The staffing requirements for the new patients had been agreed as part of the contract arrangements and would include the transfer of 2 wte GP's, 4.39 wte nurses (1.73 wte practice nurses, 0.5 wte specialist nurse, 2.16 nurse practitioners), 4.46 wte receptionists and 1 full time supervisor. (wte – whole time equivalent.) There was no definite confirmation of which staff would transfer to the Group and this would not be known until 30 June. The services at Wynyard Road and Hartfields would be stand alone services, but the back office functions and service resilience would be provided by the whole McKenzie Group.

The new staffing arrangements would include 2 service managers, 6 GP partners, 28 receptionists, 2 secretaries, 1 full time IT officer, 1 full time PA, 1 full time officer dealing with patient service issues, 3 Meds Team members, 1 nurse manager, 7 advanced nurse practitioners, 11 practice nurses, 4 wte health care assistants, 1 practice supervisor, 1 specialist respiratory nurse, and 1 practice pharmacist. The savings to provide the efficiencies across the new partnership would come from reducing management and concentrating on front line medical staff.

The practice was currently working on ensuring the continuity of phone lines, continuity of IT systems and the centralisation of home visit arrangements.

The Chair thanked Dr Parker for the informative update. The Chair did express his concerns that the new practice would effectively be providing GP services to nearly a third of the entire town and he was apprehensive at one practice caring for so many people. The Chair also expressed concerns at the merging of the IT systems and questioned if there was any back up to those arrangements. Dr Parker commented that the IT systems were resilient; they were a national system.

The Chair referred to the violent patient service that was returning to the town to be based at Wynyard Road and asked if arrangements would be in place to separate such patients. Dr Parker indicated that they had looked at the safety issues for staff. It had been identified that Friday was the one day the surgery was the only user within the building at Wynyard Road, so the decision had been taken to run that surgery on that day. There was, however, no service model to follow as the previous service had been run out of town and it been possible to control violent patient appointments as most had to have transport arranged. There was a similar service in Sunderland which had a complete separation from other services. At Wynyard Road there were concerns about the waiting area and some initial discussion had started with the building owners on the potential of creating a separate entrance. The CCG representative commented that there was an element of rehabilitation for such patients within the services provided to them. The Chair acknowledged the comments but still wished to register his concern in relation to the safety of other patients.

The Chair questioned how many GPs would be working at the Hartfields practice as a lot of elderly residents relied on that surgery. Dr Parker indicated there would be a GP at that surgery for three days a week but a full range of services would be provided through the use of nurse practitioners. The practice had a shortage of GPs, which it was trying to address and it had recently taken on a new GP partner and hoped to have another GP partner in the near future. The practice also had a long term locum and overall was only one GP short of what it considered a full complement of doctors.

A Member questioned if the whole of the service was being provided by only six GPs. Dr Parker indicated that there were six GP partners but that the practice also employed a number of locums. A Member questioned if patients would see an improvement in waiting times for appointments. Dr Parker commented that at this point the practice could not predict the level of demand from the new patients as they did not have full access to their computer records and would not until the transfer date on 1 July.

A Member questioned the potential impact on pharmacies due to the changes in the practices. Dr Parker indicated that which pharmacy a patient used was up to them as an individual and the Group had no intention of operating a pharmacy.

A Member expressed concern at the apparent slowness in the transfer of IT records etc. The CCG representative indicated that the merger of systems could not be commenced until the contract had been awarded it was then in the hands of the national team as to when that then happened. Dr Parker shared Members frustrations but indicated that until the contract was in place nothing could be commenced. Members also sought assurance that appointments would still be managed appropriately prior to the online system coming in place. Dr Parker stated that the three appointment systems would be fully operational, it was the online booking system that would be delayed in implementation until later in the year.

A Member questioned if an update could be provided on the merger of the practices and the new contract in six months time following an assessment with patients and staff as to whether the arrangements were working well. Dr Parker commented that the Group worked on the basis of responding to patients demands quickly and did anticipate that the new practice services would develop/amend quite significantly over the first six months and would be happy to bring an update report if Members so wished.

A Member sought clarification on the issue of redundancies through the merger of the practices. Dr Parker indicated that there would be a limited number of redundancies which would include two supervisors and one nurse. The Group had been managing vacancies over recent months to reduce the impact but until the contract started it was difficult to assess the true demand on services.

A member of the public commented on the IT systems transfers and the issuing of repeat prescriptions. Dr Parker commented that the only issue in terms of functionality of IT systems was the online booking service; other elements, such as prescriptions would not be affected. The member of the public also commented on the functionality of the IT systems and was concerned at how there appeared to have issues on the sharing of information. Dr Parker commented that the issues had been picked by the national team. The Chair suggested that the member of the public should be put in contact with the national team.

The Chair thanked the representatives for their update.

The Chair added that he had been made aware of some very positive public feedback on the transfer of the urgent care services to the Hospital site and requested that they be shared with the CCG and the Trust. The only slight concerns that had been raised related to signage on the site which the Chair did feel needed to be resolved at the earliest possible opportunity. A Member of the public raised a concern in the issuing of appointments through the 111 system and the availability of out of hours doctors. The CCG representative indicated that some of the issues were known and were being addressed.

Recommended

1. That the report and discussions be noted.

2. That a further update on the implementation of the merger of the practices, and the new contract, be presented to the Committee in six months time.

7. Selection of Potential Topics for Inclusion in the 2017/18 Statutory Scrutiny Work Programme (*Statutory Scrutiny Officer*)

The Statutory Scrutiny Officer reported on the process for the determination of the Overview and Scrutiny Work Programme for the 2017/18 Municipal Year; and seeking Committee's consideration of potential topics for inclusion into the Statutory Scrutiny Work Programme for the 2017/18 Municipal Year.

The Council's Audit and Governance Committee has responsibility for two areas of statutory scrutiny. These two areas are health and crime and disorder. Each year Overview and Scrutiny identified, implemented and completed an annual work programme as a means of fulfilling its responsibilities.

In considering the development of a potential work programme item relating to health issues, the Director of Public Health, the Director of Child and

Adult Services, HealthWatch, Hartlepool and Stockton-on-Tees Clinical Commissioning Group, North Tees and Hartlepool NHS Foundation Trust (NTHFT) and Members had been consulted and the potential topics that have been suggested were -

- Public Health Interventions (Hartlepool Matters) and Prevention (Sustainability and Transformation Plan (STP))
- Mental Health Crisis Concordat (Hartlepool Matters) and Improving Local Mental Health Services (STP)
- Elective Surgery on the UHH site (Hartlepool matters) and high quality Maternity Services (STP)
- Deprivation and Health

In addition to the mandatory topics, the topics below have been suggested as potential items for consideration by the Committee in relation to Health. In order for the Committee to identify a suitable topic for investigation a PICK scoring system has been utilised which measures each topic using 4 areas, Public interest; Impact; Council performance and efficiency; and Keep in context.

The Statutory Scrutiny Officer also indicated that in considering potential work programme items for 2017/18, Members may also wish to update the 3 year rolling work programme for this Committee. The establishment of the rolling work programme is considered best practice as outlined in the health scrutiny guidance. This is to enable local partners to be aware in advance of forthcoming priorities of the Audit and Governance Committee. The issues suggested for the programme were –

Healthy Eating / Obesity
Drug Rehabilitation
Diet, Nutrition and Diabetes.

In considering the development of a potential work programme item relating to crime and disorder issues, the Director of Regeneration and Neighbourhoods and Members have been approached for topic discussions. On the basis of discussions and in meeting the requirements of crime and disorder committee legislation, a list of mandatory items to be considered by the Committee was set out in Appendix A to the report.

In addition to the mandatory topics, the Safer Hartlepool Partnership Strategic Assessment had been suggested as potential item for consideration by the Committee in relation to crime and disorder.

In setting the Work Programme for 2017/18 consideration also needs to be given to the following Budget and Policy Framework documents, which will be presented to the Committee during the course of the year.

- Health and Wellbeing Strategy – Annual Refresh and Action Plan
- Community Safety Plan – Annual Refresh
- Youth Justice Strategic Plan

The Statutory Scrutiny Officer highlighted that once the Committee had identified its Scrutiny topics, anticipated time frames need to be applied. It was recognised that the Committee's workload needed to be managed carefully, with due consideration given to the allocation of appropriate time to allow effective exploration of the identified health and crime and disorder topics. In order to assist in achieving this, it was suggested that the Committee considered the potential value of establishing working groups to carry out work relating to the topics.

The Chair commented that it was difficult to highlight one area of potential investigation being more worthy than another. The Chair did feel that as a local issue, the "Elective Surgery on the UHH site (Hartlepool matters) and high quality Maternity Services (STP)" was an issue that had very specific local concerns and warranted investigation. Many of the other issues of significance were being dealt with at a regional and sub regional level. The Chair indicated that he had become aware that there was a possibility that maternity services at Hartlepool may close and that there could be further changes to the services at North Tees Hospital. In light of this, an investigation into the services could potentially be beneficial at regional level providing an evidence base when seeking support from partner local authorities for the retention of services locally. The Chair's recommendation was supported unanimously by Members.

The Chair commented that any issues that were highlighted in the Tees valley or North East regional health scrutiny forums that related to Hartlepool or would potentially affect the town would be reported to the Committee directly. The Chair also stated that all Members of the Committee were welcome to attend the Tees Valley and North East regional committees, many meetings of which would be held in Hartlepool.

Recommended

1. That Elective Surgery on the UHH site (Hartlepool matters) and high quality Maternity Services (STP) be selected as the Committee's topic for investigation during the 2017/18 Municipal year.

2. That the rolling programme be maintained with the current items as listed, with the addition of Mental Health.

8. Dedicated Overview and Scrutiny Budget – 2016/17 – Outturn (*Statutory Scrutiny Officer*)

The Statutory Scrutiny Officer submitted a report giving the Committee an up-to-date position of the expenditure of the Dedicated Overview Scrutiny Budget for the 2016/17 financial year. The Committee was advised that during 2016/17 a request was agreed for funding of £1908 from the available £5,000 budget for the ARU (Judicial Review).

Recommended

That the report be noted.

9. Appointment to Committees / Forums (*Statutory Scrutiny Officer*)

The Statutory Scrutiny Officer reported on a number of committee / forum appointments made by Council and requesting nominations to those still outstanding from this Committee.

It was noted that –

- Councillors Martin-Wells, Harrison and Hamilton were appointed by Council as the Council's representatives on the Tees Valley Joint Health Scrutiny Committee.
- Councillor Martin-Wells was appointed as the Council's representative on the Regional Health Scrutiny Committee.
- Councillor Martin-Wells and Councillor Cook were appointed as the Council's representatives on the Better Health Programme Overview and Scrutiny Committee. There was one vacancy remaining on the Committee and Councillor Hall was nominated to the position.
- There was a vacancy on for an elected member on the North East Regional Joint Member / Officer Scrutiny Network; no nomination was made at the meeting.
- There was a position on the Health and Wellbeing Board for a non-voting official observer from this Committee: no nomination was made at the meeting.
- There was a position on the Safer Hartlepool Partnership for a non-voting observer from this Committee: no nomination was made at the meeting.

Recommended

That Council be informed that this Committees nomination to the remaining position on the Better Health Programme Overview and Scrutiny Committee was Councillor Gerard Hall.

10. Safer Hartlepool Partnership Strategic Assessment (Presentation) (*Director of Regeneration and Neighbourhoods*)

The Head of Community Safety and Engagement and the Community Safety Research Officer gave a presentation to the Committee on the proposed Community Safety Plan for 2017-2020. The detailed plan had been based upon the Safer Hartlepool Partnership Strategic Assessment 2016 and had used a wide range of data sources including Police, Fire, Council and NHS data.

The presentation highlighted the following key facts / issues –

- Overall, Hartlepool is a high crime area when compared to similar areas elsewhere in the country.
- Recorded crime levels in Hartlepool have increased year on year since 2014, and continue to follow an increasing trend. In 2016/17 crime increased by 11% in comparison to the year.
- Acquisitive crime is the most prevalent crime type in Hartlepool, accounting for almost one half (47%) of all recorded crime during the assessment period. Vehicle crime has increased by 51% with 857 offences recorded compared to 567 in the previous strategic year.
- Anti-social behaviour continues to be the number one priority for the community and continues to be linked to a wide range of other issues including hate crime, the night-time economy, drug dealing, alcohol misuse and housing tenure.
- It is also evident that anti-social behaviour is a precursor to criminal behaviour with a dip sample of the current cohort of Prolific and Priority Offenders (PPO's) identifying that many were known to the Police and Local Authority as perpetrators of anti-social behaviour in their early teenage years.
- Anti–social behaviour incidents are displaying a decreasing trend over the past three financial years, however, Police anti-social behaviour incidents recorded in 2016/17 have increased by 6.8%, equating to 457 more incidents than in 2015/16.
- Drug use and drug dealing continues to be a community concern particularly in our most deprived neighbourhoods. In Hartlepool the number of people who are dependent on drugs is twice the national average, standing at 18.57 per 1,000 population, with more than two thirds of these users accessing treatment services.
- Hartlepool Adult Offenders (12 months up to March 2015)
    - 1,113 offenders
    - 31.4% re-offended
    - Committing on average 4.10 offences
    - Predominantly males aged between 18-25 years.
    - Above national average: 24.3%
    - Above regional average: 28.7%
    - Hartlepool (31.4%) feature within the top 10 LA's with the highest re-offending rates in the country.
- Hartlepool Juvenile Offenders (Up to March 2015)
    - 96 offenders
    - 41.7% re-offend, those who re-offend predominantly aged (15 - 17years)
    - Committing on average 4.48 re-offences
    - Above national average 37.9%
    - Below regional average of 44.8%
    - Based on crime data recorded during 2016, a total of 790 offenders were detected and charged with more than 1900 offences, with 357 individuals having committed two or more offences.

  - Further analysis identifies 9 individuals as having committed 16 or more offences and being responsible for 10.3% of detected crime in Hartlepool.
- The Vulnerable Localities Index is a composite measure that brings together data on crime, with indicators on social exclusion, datasets used include deprivation, low Education attainment and qualification, young people population (15-24 yrs) and, crime and disorder information. Each one of the 313 Census Output Areas in Hartlepool has been given a Vulnerable Localities Index score based upon their crime, depravation and demographic make-up. Any area with a score over 200 is deemed as a vulnerable locality. As such there are 22 areas in Hartlepool that have been identified as vulnerable localities; these are located in the Jesmond, Victoria, Headland and Harbour, Burn Valley, Foggy Furze and Manor House wards . The majority of which link to Police's area of focus.
- Perceptions regarding crime and anti-social behaviour remain much higher in our most disadvantaged communities where they actually do reflect reality. However, Cleveland Police's Local Public Confidence survey identifies that the percentage of people who perceive there to be a high level of anti social behaviour in their area has remained stable at 6% (previous year 5.4%). The percentage of people who perceive drug dealing or usage to be a problem in their local area has also remained stable at 16.5% (19% last year).
- Based upon the analysis and key findings contained in the Strategic Assessment, the Partnership's strategic objectives and priorities for this year remain unchanged.

Members commented that they would wish to see actual figures alongside percentages in the future to fully understand the statistics reported.

A Member commented that schools should be involved to a greater level in assisting with the prevention of anti-social behaviour among children. Education had a positive part to play as did peer pressure among this age group and diverting them away from anti-social behaviour would, as the report indicated, potentially lead them away from crime.

Members referred to the map of crime statistics and how it correlated to the most deprived wards. The Community Safety Research Officer indicated the Ministry of Justice statistics in relation to offending rates were always two years behind, so the strategy also built upon local information as well. There was, however, a close correlation between the most deprived wards and the highest crime levels.

Members also referred to the increase in hate crime and the potential for increased hate crime due to recent terrorism incidents. The Community Safety Research Officer commented that a lot of work was done in getting the message out to the community on reporting hate crime. There were third party reporting centres across the town and the figures were monitored closely and regularly reported to the Safer Hartlepool Partnership.

The Chair commented that it may be valuable to consistently list the third party reporting centres in Hartbeat alongside the list of important telephone numbers so residents always had that information to hand.

Recommended

1. That the report be noted.

2. That Hartbeat include a permanent advert outlining the location of the third party reporting centres for hate crimes.

11. Community Safety Plan 2017-20 (Year 1) (*Director of Regeneration and Neighbourhoods*)

The Head of Community Safety and Engagement reported that the Crime and Disorder Act 1998 introduced a requirement for Community Safety Partnerships (CSPs) which had a statutory responsibility to develop and implement a three year Community Safety Strategy (now known as the Community Safety Plan) setting out how it intended to address crime and disorder, substance misuse, and re-offending issues in Hartlepool.

Based upon the Safer Hartlepool Partnership Strategic Assessment 2016, the draft Community Safety Strategy (submitted as an appendix to the report) had been considered by the Safer Hartlepool Partnership at their meeting on 16 June 2017. The strategy had been developed using a wide range of data sources including Police, Fire, Council and NHS data. Public perception information gathered from over 250 residents as part of the Safer Hartlepool Partnership ‘Face the Public’ activities held during October and November 2016, and discussions with partners at the Safer Hartlepool Partnership development day had also been used to inform the development of the 3 year strategic objectives and year one priorities.

Members welcomed the revised strategy plan and commented that employment was also a major issue in combating offending and reoffending. It was suggested that work should be undertaken with Hartlepool employers and charitable groups on building some structures around supporting past offenders into employment. The Head of Community Safety and Engagement stated that this was already a key element of the Troubled Families and Integrated Offender Management approach and one of the key factors highlighted in the strategy. The Member asked for any available statistics to show if this approach was showing improvements.

The Chair noted that the draft plan would be reported through Hartbeat and suggested that use of social media also be utilised through the consultation process.

Recommended

That the report be noted.

12. Minutes From Recent Meeting of Tees Valley Health Scrutiny Joint Committee - 26 January 2017

Received.

13. Minutes From Recent Meeting of Safer Hartlepool Partnership – 10 March 2017

Received.

14. Any Other Items which the Chairman Considers are Urgent

The Chairman ruled that the following items of business should be considered by the Committee as a matter of urgency in accordance with the provisions of Section 100(B) (4)(b) of the Local Government Act 1972 in order that the matter could be dealt with without delay.

The meeting concluded at 12.20 pm.

CHAIR

AUDIT & GOVERNANCE COMMITTEE

19 July 2017

HARTLEPOOL BOROUGH COUNCIL

Report of: Director of Finance and Policy

Subject: THE 2016/2017 FINANCIAL REPORT (INCLUDING THE 2016/17 STATEMENT OF ACCOUNTS)

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1. PURPOSE OF THE REPORT

1.1 To inform Members of the arrangements for approving the Council's Financial Report for 2016/17 (which includes the Statement of Accounts) and to provide a copy of the 2016/17 unaudited Financial Report.

1.2 This will be achieved by considering the following: -

i) Background;
ii) Basis for preparing the Statement of Accounts;
iii) Reconciliation of the Council's Management Accounts and the Year End Statutory Accounts;
iv) The 2016/2017 Pre-Audit Financial Report; and,
v) Recommendations.

2. BACKGROUND

2.1 In accordance with the Accounts and Audit Regulations 2015 all Local Authorities are required to produce an annual Statement of Accounts by 30th June.

2.2 Prior to 2011/12 Members were required to approve the draft Statement of Accounts prior to audit by the External Auditors. Whilst, this requirement has been removed, Members are still required to approve the audited Statement of Accounts before 30th September. A report will be submitted to this Committee on 20th September to discharge this responsibility. The pre-audited Financial Report (Appendix 1) is being presented to your meeting today to enable Members to familiarise themselves with the Statement of Accounts and to provide time for Members to ask questions. If it should be necessary to amend the accounts during the course of the audit, any major amendments will be reported to Members.

2.3 From 2017/18 changes to the Accounts and Audit Regulations will require Local Authorities to prepare their draft Financial Report by 30th May and then publish audited accounts by 31st July. As this will be a more challenging deadline than currently exists procedures for preparing the accounts have been reviewed and tested during the preparation of the 2016/17 accounts. These procedures enabled the draft accounts to be published on the Council website on 1st June 2017.

2.4 To provide some context for the Financial Report the gross General Fund budget for 2016/17 was £175m, excluding schools and housing benefits expenditure. The net Council budget was £77m.

3. BASIS FOR PREPARING THE STATEMENT OF ACCOUNTS

3.1 Local Authorities continue to face an extremely challenging financial position owing to the impact of:

- Government grant cuts implemented up to 2016/17, this resulted in a grant cut for Hartlepool for 2016/17 of £4.5m a reduction of 15%. This was the sixth successive annual reduction in Government funding.

- The Government has confirmed that Local Authorities will continue to face further annual grants for the next three years (2017/18 to 2019/20). This means that by 2019/20 funding received from the government will be approximately £44m less than the level provided in 2010/11. This equates to a reduction of 57%.

3.2 In response to these financial challenges a proactive strategy was taken to managing the 2016/17 budget and reviewing reserves. This included preparing an early 2016/17 outturn forecast and the submission of regular update reports to Members throughout the year.

3.3 The December Strategic Financial Management report advised Members that the final outturn for 2016/17 was estimated to be an over spend of £0.479m. It was recommended that a strategy for managing the over spend would be developed once a final outturn was known.

3.4 The final outturn was £0.262m, £0.217m lower than forecast. The over spend was addressed by applying £0.126 of one off resources no longer required for protection costs and £0.136m from the General Fund Reserve.

4. RECONCILIATION OF MANAGEMENT ACCOUNTS AND YEAR END STATUTORY ACCOUNTS

4.1 As reported in the MTFS the outturn strategy was designed to manage financial risks and unavoidable commitments in 2016/17 and future financial years. This position was therefore reflected in the management accounts and the MTFS report. At the end of the financial year the Council is required to prepare statutory accounts which present this information in a defined format.

4.2 In relation to the links between the management accounts and the statutory accounts the key statement is the note showing 'Transfer to/from Earmarked Reserves' Note 6 of the Financial Report, as summarised in the following table:-

Table 1 – Value of Council's Reserves

Balance at 31 March 2016 £'000		Balance at 31 March 2017 £'000
	General Fund Reserves	
4,753	Unearmarked General Fund Balance	4,526
5,781	Budget Support & Investment Reserves	15,227
39,892	Earmarked Revenue Reserves	22,910
6,517	Earmarked Capital Reserves	6,295
56,943	**Total General Fund Reserves**	**48,958**
0	**Housing Revenue Account Reserves**	538
3,916	**School Reserves**	**2,439**
60,859	**Total Reserves**	**51,935**

4.3 The above table shows a reduction in the Council's total reserves predominantly in relation to General Fund reserves. This reflects planned usage approved as part of the MTFS to support services and provide a longer lead time to address cuts in Government grant funding.

4.4 Note 28 on page 59 of the Statement of Accounts provides a detailed analysis of the Council's reserves, as summarised in the above table and briefly outlined below:

- Unearmarked General Fund Balance £4.526m
  This amount is held to meet unforeseen commitments and is the only reserve not earmarked for a specific purpose.

- Budget Support & Investment Reserves £15.227m
  This amount includes £10.565m allocated to support the revenue budget over the period 2017/18 to 2019/20. This amount,

therefore, helps protect services in the short-term, whilst providing a longer lead time to manage the impact of continuing Government grant reductions. The remaining balance of £4.662m is to support investment in the Council's five year capital plan.

- Earmarked Revenue Reserves £22.910m
  These reserves are earmarked to fund known commitments, including future commitments funded from ring fenced grants, redundancy costs arising over the next three years and support to manage future cuts in Public Health grant funding.

- Earmarked Capital Reserves £6.295m
  Capital resources allocated to fund approved capital expenditure commitments where the scheme has commenced and work is phased over more than one financial year.

5. THE 2016/2017 PRE-AUDIT FINANCIAL REPORT

5.1 The pre-audit Financial Report is attached to this report and in summary this document provides the following information: -

(i) Narrative Report

The narrative report provides an explanation of the Council's overall financial performance for 2016/17, details of the year-end financial position, outlines the impact of the current economic climate on the Council's ongoing financial position and provides a guide to the most significant matters reported in the Statement of Accounts as well as providing an overview of Service Performance.

(ii) Statement of Responsibilities for the Statement of Accounts

This sets out the responsibilities of the Council and the Director of Finance and Policy.

(iii) Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves (i.e. those which are accounting reserves).

(iv) Comprehensive Income and Expenditure Statement

The statement shows the economic cost in the year of providing services in accordance with IFRS accounting practices, rather than the amount funded from taxation. A detailed reconciliation of the difference in IFRS figures and budgeting figures is provided in Note 7 of the Statement of Accounts.

(v) Balance Sheet as at 31st March, 2017

The Balance Sheet shows the value of the Council's assets, liabilities and other balances as at 31st March, 2017 and I would comment on a number of items: -

a) Investments

Investments consist wholly of surplus temporary cash balances and are invested in accordance with the Council's Treasury Management Strategy.

During 2016/2017 the Council, in accordance with the approved Treasury Management Strategy, continued to reduce exposure to counterparty risk by holding shorter maturity investments and reducing external investments to avoid borrowings.

b) Long Term Loans Borrowing

The Council's Long Term Borrowing represents the financing of the Council's historic borrowing requirement and individual business cases.

c) Other Long Term Liabilities

Other Long Term Liabilities predominantly relate to the net pension liability. This represents an accounting valuation and has no impact on the Council's underlining financial position or pension contributions.

d) Usable Reserves

The total values of these reserves, including School Balances, were £51.935m at 31st March, 2017 (£60.859m at 31st March, 2016), as detailed in paragraphs 4.2 to 4.4.

(vi) Cash Flow Statement

The Cash Flow Statement shows the receipt and payment of cash arising from transactions with third parties for revenue and capital purposes.

(vii) Statement of Accounting Policies

This states that the accounts have been prepared with certain exceptions to which specific reference is made in the Statement of Accounts, in accordance with proper accounting practices as defined in legislation and the appropriate Accounting Code of Practice.

The Statement of Accounting Policies describes the basis upon which the accounts have been prepared and certain items included in the accounts.

(viii) Notes to the Core Statements

This section provides further information on the figures reported in the Core Statements, namely the Movement in Reserves Statement, Comprehensive Income and Expenditure Account, Balance Sheet and Cash Flow.

(ix) Annual Governance Statement

The statement sets out the Council's responsibilities for ensuring the Council has an appropriate system of internal control. This statement was approved by the Audit Committee on 27th April 2017.

(x) Glossary of Terms

This is not part of the statutory requirements. Nevertheless, it is included to assist readers in understanding the meaning of the various financial phrases included in the accounts.

6. CONSIDERATIONS / IMPLICATIONS

Financial Considerations and Risk Implications	None
Legal Considerations	None
Child and Family Poverty Considerations	None
Equality and Diversity Considerations	None
Staff Considerations	None
Asset Management Considerations	None

7. CONCLUSIONS

7.1 The report completes the financial reporting process for 2016/17 and highlights the robust action taken during 2016/17 to manage budgets. As detailed in previous MTFS reports this approach has helped the Council manage the impact of continuing grant cuts and the additional financial risk transferred to Councils from April 2013.

7.2 The report also provides details of how the previously reported outturn position for 2016/17 is reflected in the year end Statutory Accounts. This information simply provides a reconciliation of the Council's management accounts and year end Statutory Accounts.

7.3 The external auditors Mazars have commenced the audit of the draft 2016/17 Financial Report. Following completion of this work the Statement of Accounts and Auditor's Report will be submitted to Audit and Governance Committee on 20th September 2017 to enable Members to approve the Audited Financial Report.

8. RECOMMENDATIONS

8.1 It is recommended that Members:-

i) Note the report;

ii) Note that the pre-audit accounts will be subject to independent audit by Mazars and details of any material amendments will be reported to Audit and Governance Committee in September.

iii) Note that there is the opportunity to raise questions and/or seek clarification of information included in the pre-audit Statement of Accounts in the period up to 20th September 2017, when the audited Statement of Accounts will be presented to Audit and Governance Committee for final approval.

9. CONTACT OFFICER

Chris Little
Director of Finance and Policy
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Email: chris.little@hartlepool.gov.uk

HARTLEPOOL BOROUGH COUNCIL

Draft Financial Report 2016/17

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SECTION 3 : Statement of Accounts

SECTION 1 : Narrative Report

INTRODUCTION

The Narrative Report provides an overview of the most significant matters reported in the Financial Report and highlights key aspects of the Council's financial and service performance, including details of performance for 2016/17, the financial outlook for 2017/18 and the following three financial years.

SUMMARY FINANCIAL PERFORMANCE AND YEAR END FINANCIAL POSITION FOR 2016/17

Revenue Spending 2016/17 - Budget Position

The Council prepares a rolling four year financial strategy and in relation to 2016/17 the financial strategy reflected a further reduction in the amount of Government funding received by the Council of £4.5 million, a reduction of 15%. This was the sixth successive annual reduction in Government funding and means that in 2016/17 the Council received £34.6 million less Government funding than it did in 2010/11, a cumulative reduction of 45%.

The system operated up to 2010/11 by the Government for allocating funding to individual Local Authorities reflected the needs of each area and the ability to raise income locally from Council Tax. However, over the last six years these factors have not been recognised to the same extent. As a result over the last six years the Authority has suffered disproportionate spending power cuts owing to Government funding reductions.

In addition to the Government grant cut, the decision by the Valuation Office Agency (VOA) to reduce the rateable value of the power station reduced the Council's share of recurring business rates income by £3.8m. Therefore the Council faced a total budget deficit of £8.3m, a reduction of nearly 10%. To manage this reduction the Council implemented a range of savings, increased Council Tax, allocated increased Council Tax income from Housing Growth and used reserves. The Council recognised the use of reserves does not provide a permanent strategy. In February 2017 the Council approved further budget reductions to be implemented over three years commencing in 2017/18. Further information is provided in the Financial Outlook 2017/18 to 2019/20 section.

In line with the Government's revised Council Tax policy the Council implemented an overall Council Tax increase of 3.9% for 2016/17, including the 2% Social Care precept. This was the first increase for five years and recognised the increased financial pressure on services. To mitigate the impact on low income households the Local Council Tax Support Scheme was maintained at 12% for the third successive year. The 2016/17 budget provided for an increase in the Hartlepool Living Wage to £8.04, compared to the national minimum wage of £7.20.

The Council's net 2016/17 General Fund budget, which is funded from Government Grant and Council Tax, was £124.818m, including expenditure funded from the Dedicated Schools Grant.

Revenue Spending 2016/17 - Outturn Position

In response to the ongoing financial challenges in future years the Council continued to carefully manage resources during 2016/17 and aimed to achieve an under spend by managing all budgets carefully, including identifying savings which could be sustained and built into the budget for 2017/18. This strategy reflected an initial assessment of the forecast outturn prepared in February 2017 which anticipated a year end over spend for service based expenditure, including significantly higher costs of increased numbers of Looked after Children and the impact of court decisions regarding these cases. It was anticipated that these costs could be offset by an under spend on corporate budgets and net one-off resources of £1.860m could be earmarked to support Council priorities in 2017/18. As the year progressed it was identified that the strategy would not be achievable and a potential overall over-spend of up to £0.479m was forecast. The final position was a net over-spend of £0.262m, which has been funded from a combination of one of resources, as summarised in the table below. The final outturn reflects the increasing financial pressures and risks facing the Council, although the final net over spend needs to be considered in the context of an gross revenue budget of £266.633m.

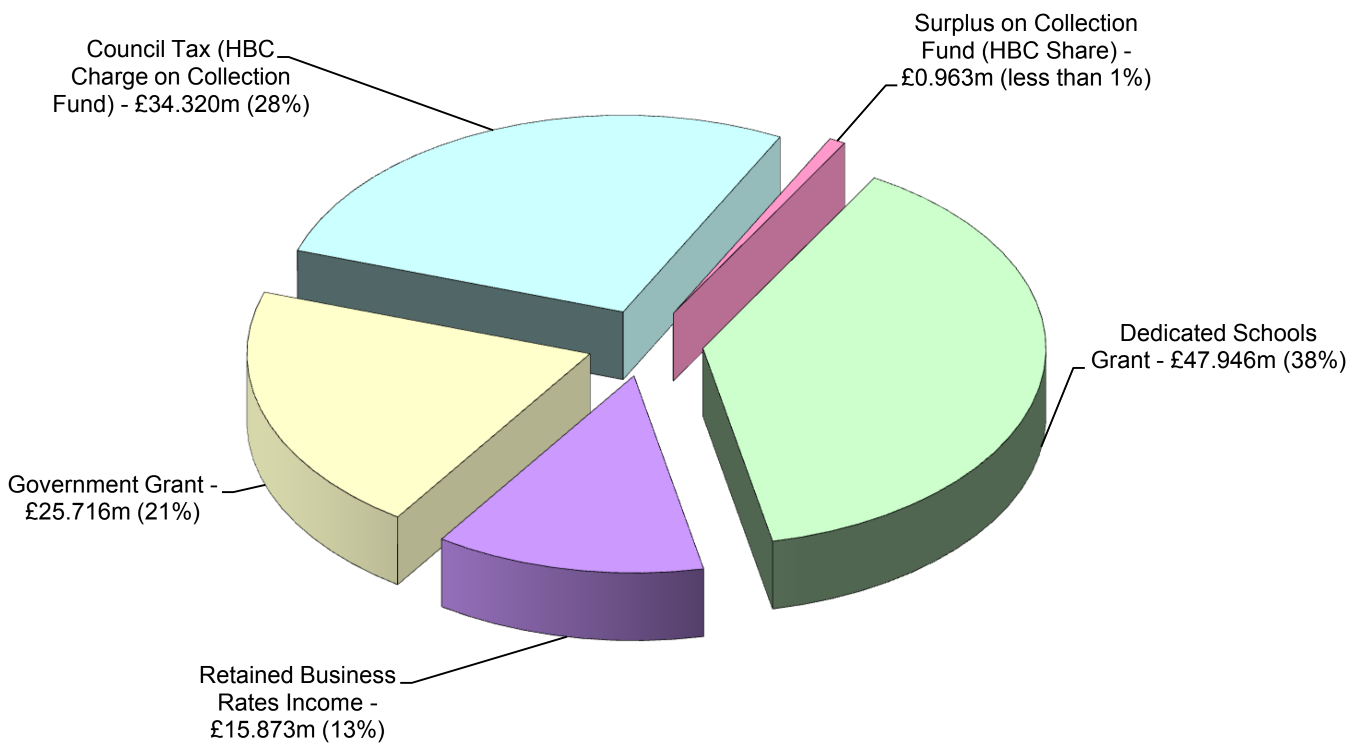
SECTION 1 : Narrative Report

The following table provides a summary of actual expenditure against the approved budget for 2016/17.

Summary of 2016/17 Financial Position

Description of Expenditure	**2016/17 Approved Budget £000**	**2016/17 Actual Expenditure / (Income) £000**	**2016/17 Variance Adverse / (Favourable) £000**
Departmental Expenditure			
Child & Adult Department	46,967	47,999	1,032
Chief Executives Department	4,541	3,845	(696)
Regeneration & Neighbourhoods Department	20,613	19,853	(760)
Public Health Department	1,103	1,301	198
Corporate Expenditure	9,602	6,510	(3,092)
Dedicated Schools Grant Related Expenditure	47,946	47,946	-
Creation / (Use) of Reserves			
Ring Fenced Grant Reserves	-	442	442
Reserves Created to manage specific commitments/risks	-	1,218	1,218
Funding Released from Reserve Review	-	(3,802)	(3,802)
Planned Contribution to Reserves	-	5,722	5,722
Planned Contribution from Reserves	(5,954)	(5,954)	0
Final Contribution from General Fund	**124,818**	**125,080**	**262**
Housing Revenue Account (HRA)	0	(8)	(8)
Final Contribution to HRA Reserve	**0**	**(8)**	**(8)**
Net Movement on the General Fund & HRA	**124,818**	**125,072**	**254**

The Council's budget of £124.818m was funded from the following sources:



Capital Spending 2016/17 - Outturn Position

In 2016/17 the Council had a total Capital Programme of £34.950m and incurred expenditure totalling £19.994m. An analysis of this expenditure is shown below, together with an analysis of how it was financed.

	£000	%
Expenditure		
Highway Maintenance & Construction	3,046	15%
Housing Investment Programme	1,573	8%
Sea Defences	4,243	21%
School Improvements	2,588	13%
Replacement of Fleet Vehicles	961	5%
Other Schemes	7,583	38%
Total Expenditure	**19,994**	**100%**
Capital Financing		
Capital Grant	9,801	49%
Borrowing	7,514	38%
Corporate Resources	2,367	12%
Capital Receipts	312	1%
Total Capital Financing	**19,994**	**100%**

As at 31 March, 2017 the Council had rephased capital expenditure totalling £14.956m into 2017/18. This will be funded from the following resources, which have also been rephased into 2017/18.

Capital Financing	**£000**
Government Grants	5,078
Borrowing	4,386
Capital Funding Reserves	5,492
	14,956

Capital Receipts

The Council received gross receipts of £0.426m in 2016/17 from the sale of assets, all of which related to the disposal of land and buildings. The net receipt after cost of disposals was £0.378m.

FINANCIAL OUTLOOK 2017/18 to 2019/20

The Council, alongside the majority of Authorities, successful applied to the Government for a four year grant settlement covering the period 2016/17 to 2019/20. This application was made on the basis that this would provide the best settlement possible within the current spending framework and certainty of funding levels for this period, albeit confirming annual Government funding cut until 2019/20. The four year settlement for 2016/17 to 2019/20 will mean that by 2019/20 the Council will have faced nine years of funding cuts. Consequently, by 2019/20 funding received from the Government will be £44.2m less than the level provided in 2010/11, which equates to a cut of 57%.

To address the 2017/18 funding reduction the Council increased Council Tax by 4.9%, which included the use of the new 3% Social Care precept introduced by the Government. This raised additional income of £1.7m. The balance of the funding cut, £4.4m, was addressed from a combination of efficiency savings, use of reserves and housing growth. The use of reserves in 2017/18 is part of the Council’s multi-year strategy for managing the impact of front loaded Government grant cuts and service pressures over a four year period. The Council has earmarked £10.565m of reserves to support the revenue budget over the next three years (2017/18 to 2019/20), which provides a longer lead time to reduce the budget. Without these resources budget cuts would have had to be implemented sooner.

In February 2017 the Council also approved proposals to reduce the budget deficits in 2018/19 and 2019/20, including indicative Council Tax increases for these years and detailed savings proposals. Whilst these measures significantly reduce the budgets deficits the Council still needs to make further savings in 2018/19 of £1.685m and £0.785m in 2019/20. Detailed plans will be developed during 2017.

BORROWING FACILITIES AND INVESTMENT STRATEGY

The Council's arrangements for borrowing accord with the approved Treasury Management Strategy, which was drawn up to comply with the Code of Practice for Treasury Management in Local Authorities published by the Chartered Institute of Public Finance and Accountancy.

In accordance with this strategy the Council has taken a proactive approach to managing cash investments and debt. For a number of years the Council has internalised borrowing by netting down borrowing against investments. However interest rates have fallen to a historically low level, which the Council has taken advantage of to secure financing in relation to business cases. The Council has also used these historically low rates to reduce interest rate risk in relation to some existing capital expenditure previously temporarily funded by internalising borrowing.

The interest earned on Council investments remained low during 2016/17, this has been mitigated by low interest costs on the Council's borrowings.

PENSIONS

The Council has accounted for retirement benefits according to International Financial Reporting Standard (IFRS) IAS 19. In the accounts as at 31 March, 2017 there was a deficit on the Pensions Reserve of £117.899m (£125.267m in 2015/16). This was offset by a Pensions Liability of the same value. The net pensions liability has decreased owing to greater returns on assets and investments.

The Council is a member of the Teesside Pension Fund and the statutory arrangements for this scheme mean that the IAS19 deficit does not need to be made good by increased pensions contributions from the Council or employees. A separate Pension Fund valuation is carried out every three years to determine the Council's contribution rate. The last full valuation set the employer's contribution rate for the period 2014/15 to 2016/17. The most recent Pension Fund Valuation set the employer's contribution rate for the period 2017/18 to 2019/20 and resulted in a phased increase from 14.2% to 15.5%***.*** Provision for the additional cost has been made within the Council's budget plans.

Further information is included in Notes 44 and 45 to the Statement of Accounts.

STATEMENTS OF ACCOUNTS

As a result of CIPFA's "Telling the Story" review of the presentation of local authority financial statements the Code of Practice on Local Authority Accounting has been updated to reflect new reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement and introduces a new Expenditure and Funding Analysis which replaces the Segmental Reporting note. Where required, comparators have been restated to reflect the changes.

A detailed analysis of the Council's financial position can be found in the Statements of Accounts. A brief explanation of the purpose and significant financial issues of each of the statements is given below:

Movement in Reserves Statement

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

Comprehensive Income and Expenditure Statement

This Statement shows the economic cost in the year of providing services in accordance with International Financial Reporting Standards (IFRS), rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Exceptional Items

Following the conversion of Jesmond Gardens and Brougham Primary School to Academy Status the legal transfer of assets was actioned during 2016/17. This transfer resulted in the need to 'write out' the value of these assets from the Council's accounts. This 'write-out' totalled £8.876m for 2016/17 and is disclosed separately in the Comprehensive Income and Expenditure Statement owing to the exceptional nature of these transactions.

Balance Sheet

The Balance Sheet shows the value of the assets and liabilities recognised by the Council at 31 March, 2017. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserve includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations.'

The major movements on the Balance Sheet are as follows:

- Property, Plant and Equipment, Investment Properties, Assets Held for Sale, Heritage Assets, Revaluation Reserve and Capital Adjustment Account – the Council's total fixed assets have decreased by £2.112m which comprises expenditure on fixed assets of £18.227m, upward revaluations of existing assets of £5.279m, less depreciation, downward revaluations and disposals of £25.618m.

- Short Term Investments - totalled £40.068m as at 31 March. 2017 (£54.972m at 31 March, 2016). The decrease primarily relates to net cash flows in relation to the repayment of transitional relief to Central Government and Safety Net Grant due from Central Government following the settlement of the Business Rates appeal for Hartlepool Power Station.

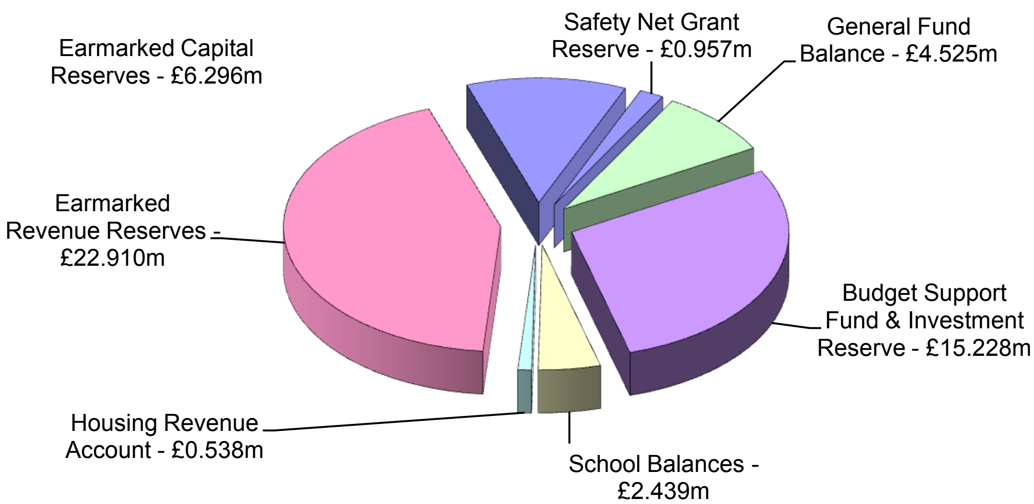
- Short Term Debtors - totalled £15.580m as at 31 March, 2017 (£58.381m at 31 March, 2016). The decrease primarily relates to Safety Net Grant which was due to the Council from Central Government in 2015/16 and Central Government's share of the 2015/16 Collection Fund deficit following the settlement of the Business Rates appeal for Hartlepool Power Station and the consequent reduction in its Rateable Value.

- Short Term Creditors - totalled £18.362m as at 31 March, 2017 (£56.589m at 31 March, 2016). The decrease predominantly relates to Transitional Relief that was repayable to Central Government in 2015/16 following the settlement of the Business Rates appeal for Hartlepool Power Station.

- Other Long Term Liabilities - as at 31 March, 2017, were £118.188m (£125.681m at 31 March, 2016). The increase is mainly owing to the annual service costs being greater than employer contributions received. There is a corresponding decrease to the Pensions Reserve, which is included within Unusable Reserves in the balance sheet. Further detail of the movement in Unusable Reserves is provided in Note 29.

At the 31 March, 2017 the Authority had reserves of £52.893m (£82.310m at 31 March, 2016). Full details of the Council's reserves are provided in Note 28 and include the following key reserves:

Analysis of Reserves 31/03/17 - Total £52.893m



Contributions have been made to specific reserves to manage risks and protect the Council's financial Position. Looking to the future, the Council's reserves will fall significantly as these resources are committed for one-off expenditure commitments and supporting the revenue budgets in 2017/18 and beyond. Details of the movement on reserves and balances are provided in Note 6.

The Council reviews the level of reserves and financial risk on an annual basis and the next review will be completed during Summer 2017.

Cash Flow Statement

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

Pooled Budgets - Better Care Fund

The Better Care Fund (BCF) has been established by the Government to support the introduction of a fully integrated health and social care system. Section 75 of the National Health Service Act 2006 gives powers to Local Authorities and Clinical Commissioning Groups (CCG) to establish and maintain pooled budgets to support the outcomes of the BCF. The Council has entered into a pooled budget arrangement with NHS Hartlepool and Stockton Clinical Commissioning Group. Further details are provided in Note 47.

Supplementary Financial Statements

Collection Fund

The Collection Fund is a statutory fund, separate from the General Fund of the Council, which accounts independently for transactions relating to Council Tax and National Non Domestic Rates. The Fund is operated and reported on under the same accounting policies as Hartlepool Borough Council.

The total Council Tax for the year was £1,756.09 (£1,695.32 in 2015/16) for Band D properties, excluding parish precepts where these applied. This comprised £1,474.03 for the Council’s own services, £210.36 for the Police and Crime Commissioner and £71.70 for Cleveland Fire Authority. Each Authority determined its own tax and made a precept on the Collection Fund.

The Council Tax for the Council’s services was determined on the basis of an equated number of 33,287 Band D properties. When setting the charge a 1.5% allowance for non-collection was made.

Further details on the income and expenditure of the Fund are shown in the Collection Fund notes.

	£000	%
Expenditure		
Hartlepool Council Precept	34,320	114%
Police and Crime Commissioner Precept	4,894	16%
Cleveland Fire Authority Precept	1,668	6%
Central Government's Share Non Domestic Rates	16,080	54%
Hartlepool Council Non Domestic Rates Precept	15,873	53%
Cleveland Fire Authority Non Domestic Rates Precept	324	1%
Other	(43,172)	(144%)
	29,987	100%
Income		
Council Tax	40,771	49%
NNDR from Rate Payers	31,843	41%
Transitional Protection Refund	(90)	10%
	72,524	100%
Net Deficit / (Surplus) in Year	**(42,537)**	

SECTION 1 : Narrative Report

Housing Revenue Account

Where Local Authorities hold Council Dwellings that number above the threshold set by Central Government they are required to maintain a separate Housing Revenue Account (HRA). In 2016/17 the Council's housing stock rose above this threshold and a HRA has been introduced. The HRA shows the in-year economic cost of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and Government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

In 2016/17 £0.008m was transferred to the HRA reserve after adjustments between accounting basis and funding basis under statute. In addition £0.530m of Earmarked Reserve relating to Housing was transferred to the HRA reserve.

ACCOUNTING POLICIES

The accounting policies adopted by the Council comply, except where specific reference is made, with the relevant recommended accounting practice.

The Council's policies are explained fully in the Statement of Accounting Policies. For the purpose of the Statement of Accounts, the Council's expenditure follows the standard classification recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the comparative figures for 2015/16 have been shown where appropriate.

FINANCING AND SERVICE PERFORMANCE - DELIVERY OF ECONOMY, EFFICIENCY & EFFECTIVENESS

The Authority recognises that the delivery of economy, efficiency and effectiveness are a combination of strong financial and service performance. As detailed in previous sections the Council set a balanced budget for 2016/17 and this included implementing a detailed savings plan which makes a significant contribution towards delivering services which are economical, efficient and effective. The actions taken to achieve a managed under spend against the reduced budget level also made a significant contribution towards delivering services which are economical, efficient and effective.

The Council managed cash resources effectively by ensuring that all income was received promptly and payments were made when due. These arrangements are underpinned by a robust Treasury Management strategy which provides the framework for managing borrowing decisions and temporary investment of surplus cash. There are no concerns regarding the level of debtors at 31 March, 2017 as the amounts due to the Authority mainly relate to Government grants and payments due from local authorities which will be received in 2017/18.

In addition, to delivering on the financial targets the Authority also delivered strong service performance, as detailed in the following paragraphs. The Authority's 2016/17 Financial and Service performance demonstrates continued delivery of economy, efficiency and effectiveness in a challenging financial environment.

The Council Plan sets out the Council's overall service planning arrangements. It addresses the key priorities and issues facing the Council and is prepared in parallel with the Council's annual Budget and Medium Term Financial Strategy. The Council Plan is agreed annually by Full Council and contains;

- an action plan setting out how the Council proposes to deliver the priority outcomes,
- Performance Indicators (PIs) which are then used to monitor progress throughout the year and at year end, this includes both targeted and monitored PIs, and
- the key risks that could prevent the Council from delivering the priority outcomes.

SECTION 1 : Narrative Report

In 2016/17 the Council Plan had 124 actions, 101 Performance Indicators (92 targeted and 9 monitored) and 90 Strategic Risks. In comparison, the 2015/16 Council Plan had 177 actions, 141 PIs (85 targeted and 56 monitored) and 91 Strategic Risks. Progress against the Council Plan is reported quarterly to the Corporate Management Team and Finance & Policy Committee. At the end of Quarter 4 the following progress was reported in 2015/16 and 2016/17:

2015/16			2016/17	
		Actions		
145	82%	Completed	101	81%
7	4%	On track	5	4%
23	13%	Progress acceptable	5	4%
2	1%	Not completed	13	11%
		Performance Indicators (targeted only)		
43	51%	Achieved	51	51%
8	9%	Expected to achieve	6	6%
16	19%	Acceptable	8	8%
0	0%	Intervention Required	1	0%
7	8%	Not achieved	26	26%
11	13%	Results not yet available	9	9%

2015/16		2016/17
	Key Finance Indicators	
95.40%	Percentage of Council tax collected in year	95.40%
98.50%	Percentage of Business Rates collected in year	98.40%
97.96%	Percentage of invoices paid in 30 days	93.07%
93.60%	Percentage of invoices paid to local suppliers in 10 days	90.37%
17.14 days	Average time to process new Housing Benefit/Council Tax Benefit claims	19.85 days
	Long-Term Council Tax Collection Rates	
99.30%	Council Tax collected after 5 years	99.30%
99.80%	Business Rates collected after 5 years	99.50%

The Council approved a new Council Plan covering the period 2017/18 to 2019/20 and this is based upon addressing the following 6 strategic priorities:

- Growing our economy, jobs and skills.
- Regenerating our town.
- Developing and promoting Hartlepool as a great place to live.
- Developing new services for people and communities.
- Building better beginnings and better futures for our children and young people.
- Providing effective leadership based upon innovation and efficiency.

INSPECTION OF ACCOUNTS

Members of the public have a statutory right to inspect the accounts before the audit is completed, question the auditor and make objections at audit. The availability of the accounts for inspection was advertised on the Council's website and in relation to the 2016/17 financial year the inspection period is 19 June 2017 to 28 July, 2017.

Chris Little CPFA
Director of Finance and Policy
Date: 31 May, 2017

SECTION 2 : Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Finance Officer;

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets, and;

- approve the Statement of Accounts.

I confirm that the accounts set out in this document were approved by the Audit and Governance Committee at the meeting held on XX/XX/2017.

Councillor Raymond Martin-Wells
Chair of Audit and Governance Committee
Date:

The Chief Finance Officer's Responsibilities

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

In preparing this Statement of Accounts, the Chief Finance Officer has:

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

The Chief Finance Officer has also:

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

Certification of the Accounts by the Chief Finance Officer

In accordance with the requirements of the Accounts and Audit Regulations 2015, I certify that Section 1 to 3 of the Financial Report 2016/17, which includes the Statement of Accounts, gives a true and fair view of the financial position of Hartlepool Borough Council at the accounting date and its income and expenditure for the year ended 31 March, 2017.

Chris Little CPFA
Director of Finance and Policy
Date:

Movement in Reserves Statement for the year ended 31 March 2017

	General Fund Balance	Earmarked General Fund Reserves	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	**Total Usable Reserves**	**Unusable Reserves**	**Total Reserves**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	**£000s**	**£000s**	**£000s**
Balance at 31 March 2015 carried forward	5,253	11,326	43,911	-	-	1,081	325	61,896	59,310	121,206
Movement in reserves during 2015/16										
Surplus or (deficit) on provision of services	(9,597)	-	-			-	-	(9,597)	-	(9,597)
Other Comprehensive Income and Expenditure	-	-	-			-	-	-	15,681	15,681
Total Comprehensive Income and Expenditure	(9,597)	0	0			0	0	(9,597)	15,681	6,084
Adjustments between accounting basis & funding basis under regulations (note 5)	31,096	-	-			(1,081)	(4)	30,011	(30,011)	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	21,499	-	-			(1,081)	(4)	20,414	(14,330)	6,084
Transfers to/(from) Earmarked Reserves	(21,999)	(1,629)	23,628			-	-	-	-	-
Increase/(Decrease) in Year	**(500)**	**(1,629)**	**23,628**			**(1,081)**	**(4)**	**20,414**	**(14,330)**	**6,084**
Balance at 31 March 2016 carried forward	**4,753**	**9,697**	**67,539**			**0**	**321**	**82,310**	**44,980**	**127,290**
Movement in reserves during 2016/17										
Surplus or (deficit) on provision of services	(23,009)	-	-	(3,038)		-	-	(26,047)	-	(26,047)
Other Comprehensive Income and Expenditure	-	-	-			-	-	-	20,166	20,166
Total Comprehensive Income and Expenditure	(23,009)	0	0	(3,038)	0	0	0	(26,047)	20,166	(5,881)
Adjustments between accounting basis & funding basis under regulations (note 5)	(6,539)	-	-	3,046	147	-	(25)	(3,371)	3,371	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	(29,548)	-	-	8	147	0	(25)	(29,418)	23,537	(5,881)
Transfers to/(from) Earmarked Reserves	29,321	7,969	(37,820)	530		-	-	-	-	-
Increase/(Decrease) in Year	**(227)**	**7,969**	**(37,820)**	**538**	**147**	**-**	**(25)**	**(29,418)**	**23,537**	**(5,881)**
Balance at 31 March 2017 carried forward	**4,526**	**17,666**	**29,719**	**538**	**147**	**0**	**296**	**52,892**	**68,517**	**121,409**

For detail on Usable and Unusable Reserves see Notes 28 and 29.

Comprehensive Income and Expenditure Statement for the year ended 31 March 2017

Restated 2015/16 £000s Expenditure	£000s Income	£000s Net	Continuing operations:	2016/17 £000s Expenditure	£000s Income	£000s Net	Note
137,866	(84,788)	53,078	Child and Adult Services	140,967	(81,596)	**59,371**	
56,215	(50,960)	5,255	Chief Executives	54,955	(49,726)	**5,229**	
10,518	(10,668)	(150)	Public Health	11,217	(11,190)	**27**	
52,557	(21,075)	31,482	Regeneration and Neighbourhood Services	51,719	(25,134)	**26,585**	
7,603	(1,746)	5,857	Corporate	9,124	(2,893)	**6,231**	
-	-	-	HRA	3,771	(1,028)	**2,743**	
264,759	(169,237)	95,522	**Cost of Services**	**271,753**	**(171,567)**	**100,186**	
1,532	(1,045)	487	Other Operating Expenditure	1,753	(587)	**1,166**	*8*
-	-	-	Transfer of School Assets (see Note (a) below)	8,876	-	**8,876**	*8*
17,731	(12,992)	4,739	Financing and Investment Income and Expenditure	17,375	(13,366)	**4,009**	*9*
-	(21,451)	(21,451)	NNDR Safety Net Grant (see Note (b) below)	-	(7)	**(7)**	*10*
-	(69,700)	(69,700)	Taxation and Non-Specific Grant Income	-	(88,183)	**(88,183)**	*10*
284,022	(274,425)	9,597	**(Surplus) / Deficit on Provision of Services**	**299,757**	**(273,710)**	**26,047**	*7*
		(11,772)	(Surplus) / Deficit on Revaluation of Property, Plant and Equipment			(5,279)	*29 Table 1*
		(3,909)	Actuarial (Gains)/Losses on Pension Assets & Liabilities			(14,887)	*29 Table 4*
		(15,681)	**Other Comprehensive Income and Expenditure**			**(20,166)**	
		(6,084)	**Total Comprehensive Income and Expenditure**			**5,881**	

Note (a) - Following the conversion of Jesmond Gardens and Brougham Primary School to Academy Status the legal transfer of assets was actioned during 2016/17. This transfer resulted in the need to 'write out' the value of these assets from the Council's accounts. This 'write-out' totalled £8.876m for 2016/17 and is disclosed separately in the Comprehensive Income and Expenditure Statement owing to the exceptional nature of these transactions.

Note (b) - In 2015/16 the rateable value of the Power Station reduced by 48%. This put the Council beyond the 'safety net' threshold and consequently the Council was entitled to a 'safety net' grant of £21.451m which was accrued. This was transferred to reserves and is fully committed to repay the deficit on the Collection Fund arising from Rateable Value reductions approved by the Valuation Office Agency predominantly in relation to the Power Station.

Balance Sheet as at 31 March 2017

1 April 2016 £000s		31 March 2017 £000s	Note
259,416	Property, Plant and Equipment	255,473	14
14,947	Heritage Assets	14,947	17
15,664	Investment Property	17,616	16
197	Long Term Investments	197	18
889	Long Term Debtors	2,697	19
291,113	**Long Term Assets**	**290,930**	
54,972	Short Term Investments	40,067	37
447	Inventories	268	20
58,381	Short Term Debtors	15,579	21
6,242	Cash and Cash Equivalents	6,578	22
120	Assets Held for Sale	-	23
120,162	**Current Assets**	**62,492**	
(1,317)	Bank Overdraft	(1,115)	22
(2,864)	Provisions	(1,939)	25
(4,768)	Short Term Borrowing	(4,815)	37
(56,589)	Short Term Creditors	(18,363)	24
(5,940)	Capital Grants Receipts in Advance	(4,642)	27
(597)	Revenue Grant Receipts in Advance	(381)	27
(72,075)	**Current Liabilities**	**(31,255)**	
(1,230)	Provisions	(1,139)	25
(83,497)	Long Term Borrowing	(80,832)	37
(125,681)	Other Long Term Liabilities	(118,188)	26
(1,500)	Capital Grant Receipts in Advance	(597)	27
(211,908)	**Long Term Liabilities**	**(200,756)**	
127,292	**Net Assets:**	**121,411**	
4,753	Unearmarked General Fund Balances	4,526	28
5,782	Budget Support Fund & Investment Reserves	15,227	28
3,916	Schools Balances	2,439	28
39,891	Earmarked Revenue Reserves	22,910	28
6,518	Earmarked Capital Reserves	6,295	28
21,451	Business Rates Safety Net Grant Reserve	957	28
-	Housing Revenue Account	538	28
44,981	Unusable Reserves	68,519	29
127,292	**Total Reserves:**	**121,411**	

Statement Of Cash Flows For The Year Ended 31 March 2017

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

2015/16 £000s		**2016/17 £000s**	***Note***
(9,597)	Net Surplus / (Deficit) on the Provision of Services	(26,047)	
39,556	Adjustments to Net Surplus / (Deficit) on the Provision of Services for Non-cash Movements	16,915	40
(10,602)	Adjustments for items included in the Net Surplus / (Deficit) on the Provision of Services that are Investing and Financing Activities	(10,203)	41
19,357	**Net Cash (Outflow) /Inflow from Operating Activities**	(19,335)	
(6,669)	**Investing Activities**	3,382	42
(18,428)	**Financing Activities**	16,491	43
(5,740)	Net Increase / (Decrease) in Cash and Cash Equivalents	538	
10,665	Cash and Cash Equivalents at the beginning of the reporting period	4,925	
4,925	**Cash and Cash Equivalents at the end of the reporting period**	5,463	22

Summary of Significant Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March, 2017. The Council is required to prepare an annual Statement of Accounts in accordance with the Accounts and Audit Regulations 2015 and to comply with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

The Statements reflect the requirements of general accounting principals and concepts of:

Relevance - the financial statements provide information about the Council's performance and position that is useful to the users of the accounts to assess the stewardship of public funds and for making economic decisions.

Reliability – the financial information faithfully represents the substance of the transactions, the activities underlying them and other events that have taken place, are free from deliberate or systematic bias and material error and have been prudently prepared.

Comparability – the information has been prepared consistently and with adequate disclosures so that it can be compared with prior years and other Local Authorities.

Understandability – the statements have been prepared to ensure they are as easy to understand as possible.

Materiality – the statements disclose items of a certain size and nature such that they provide a fair presentation of the financial position and transactions of the Council.

Faithful Representation – the financial statements faithfully represent economic phenomena in words and numbers. They have been prepared on the basis that they are complete, neutral and free from error.

Accruals – other than the cash flow statement, the financial statements report transactions that have been recorded in the accounting period for which the goods and services were received or supplied rather than in which the cash was received or paid.

Going Concern - the financial statements have been prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

Legality – where the accounting principles and specific legislation requirements are in conflict, the financial statements have been prepared to reflect legislative requirements.

The accounting policies are the principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are reflected in the financial statements of the Council. Consistent accounting policies have been applied both within the year and between years. Where accounting policies are changed, this has been disclosed separately.

Where estimating techniques are required to enable the accounting practices adopted to be applied, then the techniques which have been used are, in the Council's view, appropriate and consistently applied. Where the effect of a change to an estimation technique is material, a description of the change and, if practicable the effect on the results for the current period is separately disclosed.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Summary of Significant Accounting Policies

2. Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Employee's costs are charged to the accounts of the period in which the employees worked which includes 12 monthly payments.
- Supplies and services are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the Balance Sheet.
- Works are charged as expenditure when they are completed, before which they are carried as Works in Progress on the Balance Sheet.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled the debtor balance is written down and a charge made to revenue for the income that might not be collected.
- Where payments are made or received in advance of a service being provided or received, a payment or receipt in advance is recognised as a debtor or creditor in the Balance Sheet.
- Income and expenditure are credited and debited to the relevant revenue account, unless it relates to capital receipts or capital expenditure.
- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- General revenue debtors and creditors of less than £5,000 have only been accrued at the discretion of individual departments. All amounts in excess of £5,000 have been accrued.

3. Cash and Cash Equivalents

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

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

4. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

Summary of Significant Accounting Policies

5. Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

6. Charges to Revenue for Non-current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service; and
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

7. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Costs

Termination costs are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those costs or when the Council recognises costs for a restructuring.

Where termination costs involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination costs and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Summary of Significant Accounting Policies

Post Employment Benefits

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

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

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees whilst working for the Council.

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

<u>The Local Government Pension Scheme</u>

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

The liabilities of the Teesside Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and projections of projected earnings for current employees.

The assets of the Teesside Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price,
- Unquoted securities – professional estimate,
- Unitised securities – current bid price,
- Property – market value.

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

Service cost, comprising:-

- **Current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

- **Past service cost** – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement within the Corporate line.

- **Net interest on the defined benefit liability (asset) i.e. net interest expense for the Council** – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements, comprising:-

- **The return on plan assets** – excluding amounts included in net interest on the net defined benefit liability (asset) - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- **Actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Summary of Significant Accounting Policies

Contributions paid to the Teesside Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

8. Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts unless it related to conditions or events that were in existence at the balance sheet date.

9. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as either Capital or Revenue Grant Receipts in Advance. When conditions are satisfied, the grant or contribution is credited to the relevant department line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Summary of Significant Accounting Policies

10. Interests in Companies and Other Entities

Under Local Government Reorganisation the Council was allocated 2.47% of the shares in Durham Tees Valley Airport Limited, which has reduced to 1.08% upon the sale of the airport to Peel Investments (DVTA) LTD, and 16.5% of the former County Council's shareholding in SITA Team Valley Limited (now SUEZ Recycling and Recovery Tees Valley Limited).

11. Inventories and Long Term Contracts

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

Items with a residual value have been disposed of at maximum benefit to the Council. The Chief Finance Officer is advised of obsolete stock prior to disposal for items in excess of £500 in value. Items having no residual value have been disposed of by being either:-

- Advertised internally
- Donated to charitable organisations
- Scrapped (within legislative parameters)
- Specialist removal.

Obsolete or damaged stock has been written off, otherwise an allowance has been made for obsolescence.

Work in Progress on uncompleted jobs is valued at cost, including an allocation of overheads.

12. Investment Property

Investment properties are those that are used solely to earn rental income and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value (i.e. market value), based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are reviewed annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

13. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

Summary of Significant Accounting Policies

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Summary of Significant Accounting Policies

Operating Leases

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

14. Support Services

The costs of support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2016/17. The total absorption costing principle is used – the full cost of support services are shared between users in proportion to the benefits received.

15. Property, Plant and Equipment

Property, Plant and Equipment are valued on a five-year rolling programme, although material changes to asset values will be adjusted in the interim period as they occur. The current asset values are based upon certificates issued by the Council's Property Management Division. The valuations are prepared in accordance with the Statements and UK Practice Statements contained in the RICS Appraisal and Valuation Standards. The next valuation must be completed as at 1st April, 2017. From 1st April, 2007, increases in asset valuations are credited to the Revaluation Reserve.

The asset valuations have been prepared using the following assumptions:

- The Council has good marketable title, free from any onerous or restrictive covenants.
- There are no hazardous substances or latent defects in the properties and there is no contamination present.
- Details of tenure, planning consents and other relevant information are assumed to be correct.
- That properties and their value are unaffected by any matters that would be revealed by a local search, replies to usual enquiries or by any statutory notice.
- It is assumed that the present use is lawful and that there are no adverse conditions attached. It is further assumed that there are no adverse planning proposals in existence that may affect the property in the future.
- No allowance has been made for any taxation, acquisition, realisation or disposal costs or other expenses.
- No soil surveys have been carried out or services tested.

Summary of Significant Accounting Policies

Not all properties were specifically inspected for the purposes of asset valuations. This was neither practicable, nor considered by the Valuer to be necessary, for the purpose of the valuation. However, regular inspections are made by officers of the Property Section of all the Council's property assets. As allowable under the Code depreciated historical cost is used as a proxy for some non-property assets that have short useful lives and/or low values.

Where a non current asset is included in the Balance Sheet at current value, the increase over the previous carrying amount at which that asset was included in the Balance Sheet immediately prior to the latest revaluation is credited to a revaluation account, except to the extent that it reverses a revaluation loss on the same asset previously recognised in the Comprehensive Income and Expenditure Statement, when the revaluation gain is recognised in the Comprehensive Income and Expenditure Statement.

Where an item of Property, Plant or Equipment is acquired under a finance lease, at the inception of the lease the amount to be recorded both as an asset and as a liability would be the present value of the minimum lease payments derived by discounting them at the interest rate implicit in the lease.

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price; and
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Community assets and assets under construction – historical cost
- Infrastructure – depreciated historical cost
- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- Surplus and Investment assets - fair value, detemined using the basis of market value (FV-MV)
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Summary of Significant Accounting Policies

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant department line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant department line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant department line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and Community Assets) and assets that are not yet available for use (i.e. assets under construction). Depreciation has been charged using the straight line method on the closing balances over the assets estimated useful life.

The useful lives of assets are estimated on a realistic basis and are reviewed regularly and, where necessary, revised. Where the useful life of an item of Property, Plant or Equipment is revised, the carrying amount of the item is depreciated over the revised remaining useful life. Depreciation is not charged in the year of acquisition but is charged in the year of disposal.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, or has a significantly different useful life, the components are recognised separately and depreciated based on the components useful economic life.

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

Disposals and Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and current value less costs to sell. Where there is a subsequent decrease to current value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in current value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Summary of Significant Accounting Policies

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale but remain in property, plant and equipment. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

16. Heritage Assets

Heritage Assets are held in support of the primary objective of increasing the knowledge, understanding and appreciation of the Council's history and local area. The items in the Museum Exhibit and Art Collection and the Civic Collection are held on the Balance Sheet at insurance value, and will be reviewed every five years. The assets within these collections are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

The collection is relatively static and acquisitions and donations are rare. Where they do occur acquisitions will be recognised at cost until the collection is revalued by the external valuer. Donations will only be recognised where the value is deemed to exceed £10,000, and will be valued by the external valuer.

The Council has an Acquisitions and Disposals Policy in place which sets out the acquisition, preservation, management and disposal of Heritage Assets. This is available to view on the Council's website.

The Council does not consider that reliable cost of valuation information can be obtained for many of the items held under the Sculptures, Monuments and War Memorial category. This is because of the diverse nature of the assets held and lack of comparable market values.

The Council does not purchase Heritage Assets.

17. Provisions and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate department line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

Summary of Significant Accounting Policies

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments and are disclosed as Contingent Liabilities.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

18. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

19. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

20. VAT

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

21. Financial Instruments

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For existing borrowings this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Summary of Significant Accounting Policies

For Public Works Loans Board (PWLB) loans, the fair value of each loan has been determined by information supplied by the PWLB. For market loans, the redemption rules of the PWLB have been used to approximate the fair value of loans held. The comparator market rates prevailing have been taken from indicative investment rates at each Balance Sheet date.

Financial assets

Financial assets are classified into two types:

- Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan
- Available for Sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it

Available for Sale assets are maintained in the Balance Sheet at fair value. Values are based on the value of equity shares and the net worth of the company. Changes in fair value are balanced by an entry in the Available for Sale Reserve.

Debtors are included within loans and receivables. The Council recognises that debts are not always paid and makes provision for impairment of bad debts. Bad debt impairment is calculated using a percentage based on known historic collection rates. This is applied to current outstanding debt.

22. Fair Value Measurements

The Council measure some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

Note 1: Accounting Standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2017/18 Code.

- Amendment to the reporting of pension scheme transaction costs.
- Amendment to the reporting of investment concentration (for pension funds).

The Code requires implementation from 1 April 2017 and there is therefore no impact on the 2016/17 Statement of Accounts.

Note 2: Critical Judgements in applying Accounting Policies

In applying the accounting policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- The Council has reviewed its policy in relation to the accrual of income and expenditure and has increased the de minimis level for accruals from £1,000 to £5,000. General revenue debtors and creditors of less than £5,000 have only been accrued at the discretion of individual departments. All amounts in excess of £5,000 have been accrued.
- There is a high degree of uncertainty about future levels of funding for local government beyond 2016/17. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Council has an external contract for the provision of its ICT service. This contract has been classed as an embedded lease and under IAS 37 was brought onto the Balance Sheet in 2009/10 as a finance lease. The contract was renewed in October, 2013 for a period of seven years.
- The Council has undertaken a review of all schools in Hartlepool and their accounting treatment. There are 38 schools in Hartlepool;
    - Eleven are Voluntary Aided (VA) Schools owned and accounted for by the Roman Catholic Diocese of Hexham and Newcastle or the Church of England Diocese of Durham.
    - One Voluntary Controlled (VC) School which is owned and accounted for by the Church of England Diocese of Durham.
    - One foundation School which is owned by the School Governing Body.
    - Fourteen Community Schools owned by the Council.
    - Eleven Academy Schools which the Council have transferred to the Academies under 125 year leases.

Below is an analysis of the accounting treatment for the Schools within the authority, indicating whether the asset is held on or off the Balance Sheet:

School Type	Land & Buildings	School Playing Field	Equipment
Voluntary Aided	Off	On	Off
Voluntary Controlled	Off	On	On
Foundation	Off	Off	Off
Community	On	On	On
Academy	Off	Off	Off

The income and expenditure of all schools, excluding Academies who produce their own statutory accounts, is included in the Councils Comprehensive Income and Expenditure Statement.

Note 3: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Council's Balance Sheet at 31 March, 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.061m for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effect on the net pensions liability of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate assumption would result in a decrease in liability of £9.733m, however, the assumptions interact in complex ways. During 2016/17, the Authority's actuaries advised that the net pension liability for funded LGPS benefits had decreased by £38.519m as a result of estimates being corrected as a result of experience, decreased by £10.997m following changes in demographic assumptions and increased by £103.064m attributable to updating financial assumptions. Actual pension rates are determined on an actuarial basis every 3 years. The latest valuation has determined the employer's contribution for 3 years from 2017/18. A 0.1% increase in this rate would increase the Authority's revenue budget requirement for pension costs by £0.008m.
Income Shortfalls	Owing to the current economic downturn the Council continues to face income shortfalls in relation to car park income, shopping centre income and land charges.	The Council has determined that the income shortfalls will continue in future years and has therefore created an Income Risk Reserve of £0.400m.
Arrears	At 31 March, 2017, the Council had a balance of £14.307m on general, Council Tax Payers, NNDR Payers and Trade debtors. A review of these balances suggested that an impairment of doubtful debts of £5.334m was appropriate. However in the current climate it is not certain that such an allowance would be sufficient.	If bad debt provision was made for an additional 1% of outstanding debt this would result in an additional charge of £0.143m.

Note 3: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Localisation of Business Rates	The level of Business Rates retained by the Council and the implementation of the 'safety net' threshold.	The Council has to manage potential annual Business Rates shortfalls of up to £2.740m before receiving any 'safety net' grant from the Government. The Council has set aside a reserve of £4.149m to help manage this risk.

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price.

Note 4: Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 31st May, 2017. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March, 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 5: Adjustments between Accounting Basis and Funding Basis under Regulations

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

	Usable Reserves							
2016/17	General Fund Balance £000s	Earmarked General Fund Reserves £000s	Earmarked Reserves £000s	Housing Revenue Account £000s	Housing Major Repairs Reserve £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments primarily involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement								
Charges for Depreciation and Impairment of Non-current Assets	10,609	-	-	179	-	-	-	(10,788)
Charges for Revaluation losses on Property Plant and Equipment	3,781	-	-	3,024	-	-	-	(6,805)
Movements in the Market Value of Investment	(2,277)	-	-	-	-	-	-	2,277
Capital Grants and Contributions	(9,775)	-	-	-	-	-	-	9,775
Direct Revenue Funding	(2,335)	-	-	-	-	-	-	2,335
Revenue Expenditure Funded from Capital Under	1,767	-	-	-	-	-	-	(1,767)
Amounts of Non-current Assets written off on Disposal or Sale as part of the Gain/(Loss) on Disposal to the Comprehensive Income & Expenditure Statement	10,302	-	-	-	-	-	-	(10,302)
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement								
Provision for the Financing of Capital Investment	(5,409)	-	-	-	-	-	-	5,409
Adjustments primarily involving the Capital Grants Unapplied Account:								
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	-	-	-	-	-	-	(25)	25
Adjustments primarily involving the Capital Receipts Reserve:								
Transfer of Cash Sale Proceeds Credited as part of the Gain/(Loss) on Disposal to the Comprehensive Income & Expenditure Statement	(426)	-	-	-	-	426	-	-
Use of the Capital Receipts Reserve to finance new Capital Expenditure	-	-	-	-	-	(312)	-	312
Repay borrowing	-	-	-	-	-	(114)	-	114
Adjustments primarily involving the Deferred Capital Receipts Reserve:								
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income & Expenditure Statement	-	-	-	-	-	-	-	-
Adjustments primarily involving the major Repairs Reserve:								
Reversal of Major Repairs Allowance creditied to the HRA	-	-	-	(179)	179	-	-	-
Use of Major Repairs Reserve to finance new capital expenditure	-	-	-	-	(32)	-	-	32
Adjustments primarily involving the Pensions Reserve:								
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	15,677	-	-	44	-	-	-	(15,721)
Employer's Pension Contributions and Direct Payments to Pensioners payable in year	(8,181)	-	-	(21)	-	-	-	8,202

Note 5: Adjustments between Accounting Basis and Funding Basis under Regulations

2016/17	General Fund Balance £000s	Earmarked General Fund Reserves £000s	Earmarked Reserves £000s	Housing Revenue Account £000s	Housing Major Repairs Reserve £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments Primarily involving the Collection Fund Adjustment Account:	(20,387)	-	-	-	-	-	-	20,387
Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax and income calculated for the year in accordance with statutory requirements	-	-	-	-	-	-	-	-
Adjustments primarily involving the Accumulated Absences Adjustment Account:								
Amount by which Officer Remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from Remuneration chargeable in the year in accordance with statutory requirements	114	-	-	-	-	-	-	(114)
Total Adjustments	**(6,540)**	**-**	**-**	**3,047**	**147**	**-**	**(25)**	**3,371**

Usable Reserves

2015/16	General Fund Balance £000s	Earmarked General Fund Reserves £000s	Earmarked Reserves £000s	Housing Revenue Account £000s	Housing Major Repairs Reserve £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments primarily involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement								
Charges for Depreciation and Impairment of Non-current Assets	13,118	-	-	-	-	-	-	(13,118)
Charges for Revaluation losses on Property Plant and Equipment	2,210	-	-	-	-	-	-	(2,210)
Movements in the Market Value of Investment	(1,316)	-	-	-	-	-	-	1,316
Capital Grants and Contributions	(9,629)	-	-	-	-	-	-	9,629
Write out Finance Lease								-
Direct Revenue Funding	(2,303)	-	-	-	-	-	-	2,303
Revenue Expenditure Funded from Capital Under	1,639	-	-	-	-	-	-	(1,639)
Amounts of Non-current Assets written off on Disposal or Sale as part of the Gain/(Loss) on Disposal to the Comprehensive Income & Expenditure Statement	1,714	-	-	-	-	-	-	(1,714)
								-
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement								-
		-	-	-	-	-	-	-
Provision for the Financing of Capital Investment (MRP)	(4,457)							4,457

Note 5: Adjustments between Accounting Basis and Funding Basis under Regulations

2015/16	General Fund Balance £000s	Earmarked General Fund Reserves £000s	Earmarked Reserves £000s	Housing Revenue Account £000s	Housing Major Repairs Reserve £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments primarily involving the Capital Grants Unapplied Account:								
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	-	-	-	-	-	-	(4)	4
Adjustments primarily involving the Capital Receipts Reserve:								
Transfer of Cash Sale Proceeds Credited as part of the Gain/(Loss) on Disposal to the Comprehensive Income & Expenditure Statement	(841)	-	-	-	-	841	-	-
Use of the Capital Receipts Reserve to finance new Capital Expenditure	-	-	-	-	-	(1,922)	-	1,922
Adjustments primarily involving the Deferred Capital Receipts Reserve:								
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income & Expenditure Statement	(359)	-	-	-	-	-	-	359
Adjustments primarily involving the Pensions Reserve:								
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	14,674	-	-	-	-	-	-	(14,674)
Employer's Pension Contributions and Direct Payments to Pensioners payable in year	(7,595)	-	-	-	-	-	-	7,595

2015/16	General Fund Balance £000s	Earmarked General Fund Reserves £000s	Earmarked Reserves £000s	Housing Revenue Account £000s	Housing Major Repairs Reserve £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments Primarily involving the Collection Fund Adjustment Account:								
Amount by which council tax income and non-domestic rating income credited to the Comprehensive Income & Expenditure Statement is different from council tax and non-domestic rating Income calculated for the year in accordance with statutory requirements	24,295	-	-	-	-	-	-	(24,295)
Adjustments primarily involving the Accumulated Absences Adjustment Account:								
Amount by which Officer Remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from Remuneration chargeable in the year in accordance with statutory requirements	(54)	-	-	-	-	-	-	54
Total Adjustments	**31,096**	**-**	**-**	**-**	**-**	**(1,081)**	**(4)**	**(30,011)**

Note 6: Transfers to/(from) Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2016/17. Further details are provided in Note 28.

	Balance at 31 March 2015	Transfer Between Reserves	Transfers Out 2015/16	Transfers In 2015/16	Balance at 31 March 2016	**Transfer Between Reserves**	**Transfers Out 2016/17**	**Transfers In 2016/17**	**Balance at 31 March 2017**
	£000s	£000s	£000s	£000s	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Unearmarked General Fund Balance									
General Fund Balance	5,253	-	(596)	96	4,753	**-**	**(227)**	**-**	**4,526**
	5,253	-	(596)	96	4,753	**-**	**(227)**	**-**	**4,526**
Budget Support & Investment Reserves									
2017/18 MTFS Investment Reserve	-	-	-	-	-	**3,802**	**-**	**860**	**4,662**
Business Rates Risk Reserve	-	-	-	-	-	**5,370**	**(1,221)**	**-**	**4,149**
Budget Support Fund 2016/17 to 2018/19	5,455	-	(1,037)	1,363	5,781		**(4,176)**	**1,000**	**2,605**
Adult Social Care Reserve						**2,381**	**(95)**	**7**	**2,293**
Looked After Children Reserve						**973**			**973**
						720	**(175)**		**545**
	5,455	-	(1,037)	1,363	5,781	**13,246**	**(5,667)**	**1,867**	**15,227**
School Balances									
Balances held by schools under a scheme of delegation	3,913	-	(4,367)	3,165	2,711	**-**	**(4,117)**	**2,598**	**1,192**
Strategic Change & Ring Fenced Grants Reserves - Held in Trust for Schools	1,885	(503)	(556)	109	935	**-**	**(314)**	**476**	**1,097**
Other Fund School Balances	73	13	(89)	273	270	**-**	**(270)**	**150**	**150**
	5,871	(490)	(5,012)	3,547	3,916	**-**	**(4,701)**	**3,224**	**2,439**
Housing Revenue Account Balance									
HRA Balance	-	-	-	-	-	**530**	**-**	**8**	**538**
	-	-	-	-	-	**530**	**-**	**8**	**538**
Earmarked Revenue Reserves									
Strategic One Off Costs	6,451	-	(576)	-	5,875	**-**	**(1,172)**	**-**	**4,703**
Insurance Fund	4,104	-	(5)	203	4,302	**-**	**(76)**	**204**	**4,430**
Strategic Change Ring Fenced Grants Reserve	6,424	(500)	(936)	964	5,952	**(1,910)**	**(1,486)**	**1,022**	**3,578**
Strategic Change Reserves	3,730	-	(557)	606	3,779	**(2,007)**	**(391)**	**515**	**1,896**
Public Health Grant Reserve	1,678	-	(152)	879	2,405	**(1,000)**	**(652)**	**613**	**1,366**
Strategic Risk Reserve	1,028	-	-	-	1,028	**-**	**-**	**-**	**1,028**
Capital Risk Strategy Reserve	501	-	-	400	901	**-**	**-**	**-**	**901**
Treasury Management Risk Reserve	870	-	(66)	-	804	**-**	**(9)**	**-**	**795**
Royal Navy Museum Reserve	520	-	-	-	520	**-**	**(59)**	**-**	**461**
Tees Education & Skills Reserve - Held in Trust	-	200	-	378	578	**-**	**(148)**	**-**	**430**
Lotteries Reserve	449	-	(35)	11	425	**-**	**(17)**	**10**	**418**
Income Risk Reserve	500	-	-	-	500	**-**	**(100)**	**-**	**400**
Supporting Family Poverty	-	500	-	-	500	**-**	**(155)**	**-**	**345**
Regeneration Projects	400	-	-	-	400	**-**	**(76)**	**-**	**324**
Support for Local Council Tax Support Scheme	2,920	-	-	-	2,920	**(2,620)**	**-**	**-**	**300**
Education Commission Reserve	-	500	(86)	-	414	**-**	**(150)**	**-**	**264**
Trading Account Reserves	245	-	-	89	334	**-**	**(89)**	**-**	**245**
School Attainment Reserve	711	(210)	(167)	55	389	**-**	**(169)**	**-**	**220**
Better Care Fund Reserve	220	-	-	-	220	**-**	**-**	**-**	**220**
Environmental Enhancement Projects	-	-	-	196	196	**-**	**(48)**	**-**	**148**
Museums Acquisition	80	-	-	4	84	**-**	**-**	**3**	**87**
Funding for Modern Apprentices	150	-	(60)	-	90	**-**	**(12)**	**-**	**78**
Protection Costs Reserve	750	-	-	-	750	**-**	**(683)**	**-**	**67**
Environmental Apprenticeships Scheme	42	-	(17)	-	25	**-**	**(25)**	**60**	**60**
Members Ward Budget Reserve	155	-	(107)	-	48	**-**	**-**	**7**	**55**
Concessionary Fare	38	-	-	-	38	**-**	**-**	**-**	**38**
Community Centre Reserve	30	-	-	-	30	**-**	**-**	**-**	**30**
Works in Default Empty Homes	19	-	(4)	-	15	**-**	**-**	**-**	**15**
NDC Fund	8	-	-	-	8	**-**	**-**	**-**	**8**
Building / Development Control Income Shortfall	123	-	-	-	123	**-**	**(123)**	**-**	**-**
Pay Costs Reserve	100	-	-	-	100	**(100)**	**-**	**-**	**-**
Living Wage Reserve	49	-	-	-	49	**(49)**	**-**	**-**	**-**
Secure Accommodation Reserve	264	-	(264)	-	-	**-**	**-**	**-**	**-**
WW1 Commemoration Reserve	60	-	(60)	-	-	**-**	**-**	**-**	**-**
Property Reserve	23	-	(23)	-	-	**-**	**-**	**-**	**-**
Business Rates Risk Reserve	4,784	-	-	586	5,370	**(5,370)**	**-**	**-**	**-**
Children's Social Care & Early Intervention Reserve	999	-	(279)	-	720	**(720)**	**-**	**-**	**-**
	38,425	490	(3,394)	4,371	39,892	**(13,776)**	**(5,640)**	**2,434**	**22,910**
Total Revenue Reserves	55,004	-	(10,039)	9,377	54,342	**-**	**(16,235)**	**7,533**	**45,640**
Earmarked Capital Reserves									
Capital Funding Reserve	5,486	-	(2,576)	3,286	6,196	**-**	**(2,874)**	**2,530**	**5,852**
Capital Grants Unapplied	325	-	(4)	-	321	**-**	**-**	**(25)**	**296**
HRA Major Repairs Reserve	-	-	-	-	-	**-**	**(32)**	**179**	**147**
Capital Receipts Unapplied	1,081	-	(1,922)	841	-	**-**	**(426)**	**426**	**-**
	6,892	-	(4,502)	4,127	6,517	**-**	**(3,332)**	**3,110**	**6,295**
Total Usable Reserves	**61,896**	**-**	**(14,541)**	**13,504**	**60,859**	**-**	**(19,567)**	**10,643**	**51,935**
Safety Grant Reserve									
Business Rates Safety Net Grant Reserve	-	-	-	21,451	21,451	**-**	**(20,501)**	**7**	**957**
	-	**-**	**-**	**21,451**	**21,451**	**-**	**(20,501)**	**7**	**957**

Note 7: Expenditure and Funding Analysis

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

	2015/16				2016/17	
Net Expenditure Chargeable to the General Fund	**Adjustments Between Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**		**Net Expenditure Chargeable to the General Fund**	**Adjustments Between Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
£000s	**£000s**	**£000s**		**£000s**	**£000s**	**£000s**
46,914	6,164	**53,078**	Child and Adult Services	47,999	11,372	**59,371**
3,561	1,694	**5,255**	Chief Executives	3,845	1,384	**5,229**
396	(546)	**(150)**	Public Health	1,301	(1,274)	**27**
19,988	11,494	**31,482**	Regeneration and Neighbourhood Services	19,853	6,732	**26,585**
7,037	(1,180)	**5,857**	Corporate	6,510	(279)	**6,231**
-	-	**-**	HRA	(8)	2,751	**2,743**
(21,451)	21,451	**-**	Business Rates Safety Net Grant	-	-	**-**
49,338	(49,338)	**-**	Schools	47,946	(47,946)	**-**
24,774	(24,774)		Transfers to/From Earmarked Reserves	(2,374)	2,374	**-**
130,557	**(35,035)**	**95,522**	**Net Cost of Services**	**125,072**	**(24,886)**	**100,186**
(130,648)	44,723	**(85,925)**	Other Income and Expenditure	(124,818)	50,679	**(74,139)**
(91)	**9,688**	**9,597**	**Surplus or Deficit**	**254**	**25,793**	**26,047**
5,253			**Opening General Fund Balance**	4,753		
91			**Less/Plus Surplus or (Deficit) on General Fund Balance in Year**	(262)		
-			**Less/Plus Surplus or (Deficit) on HRA Balance in Year**	8		
(591)			**Transfer Between Earmarked & General Fund Reserves**	35		
-			**Transfer Between Earmarked & HRA Reserves**	530		
4,753			**Closing General Fund & HRA Balance at 31 March**	**5,064**		

Note 7A: Expenditure and Funding Analysis

Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts:

	2016/17			
Adjustments from General Fund to Arrive at the Comprehensive Income and Expenditure Statement Amounts	**Adjustments for Capital Purposes (Note 1)**	**Net Change for the Pensions Adjustments (Note 2)**	**Other Differences (Note 3)**	**Total Adjustments**
	£000s	**£000s**	**£000s**	**£000s**
Child and Adult Services	6,354	2,175	2,843	**11,372**
Chief Executives	146	432	806	**1,384**
Public Health	408	193	(1,875)	**(1,274)**
Regeneration and Neighbourhood Services	6,511	581	(360)	**6,732**
Corporate	(4,145)	7	3,859	**(279)**
HRA	3,024	11	(284)	**2,751**
Schools	-	-	(47,946)	**(47,946)**
Transfer To/from Earmarked Reserves	-	-	2,374	**2,374**
Net Cost of Services	**12,298**	**3,399**	**(40,583)**	**(24,886)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(687)	4,121	47,245	**50,679**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**11,611**	**7,520**	**6,662**	**25,793**

	2015/16			
Adjustments from General Fund to Arrive at the Comprehensive Income and Expenditure Statement Amounts	**Adjustments for Capital Purposes (Note 1)**	**Net Change for the Pensions Adjustments (Note 2)**	**Other Differences (Note 3)**	**Total Adjustments**
	£000s	**£000s**	**£000s**	**£000s**
Child and Adult Services	4,495	1,257	412	**6,164**
Chief Executives	28	407	1,259	**1,694**
Public Health	7	190	(743)	**(546)**
Regeneration and Neighbourhood Services	10,507	1,032	(45)	**11,494**
Corporate	(4,938)	407	3,351	**(1,180)**
Business Rates Safety Net Grant	-	-	21,451	**21,451**
Schools	-	-	(49,338)	**(49,338)**
Transfer To/from Earmarked Reserves	-	-	(24,774)	**(24,774)**
Net Cost of Services	**10,099**	**3,293**	**(48,427)**	**(35,035)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(7,832)	3,786	48,769	**44,723**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**2,267**	**7,079**	**342**	**9,688**

Note 1 This is the net change for the the removal of decreciation and impairment and other capital costs from services and the addition of other operating costs and capital grants received.

Note 2 This is the net change for the removal of employer pension contributions made by the authority as allowed by statute and the replacement with current and past service costs.

Note 3 This is the net change between reserve movements in the services report and any other amounts recognised in the Comprehensive Income and Expenditure Statement recognised by statute.

Note 7B: Expenditure and Funding Analysis

The Council's income and expenditure is analysed as follows:

2015/16 £000	Expenditure/Income	2016/17 £000
	Expenditure	
93,292	Employee Benefits Expenses	93,962
152,013	Other Services Expenses	154,595
20,147	Support Service Recharges	22,417
14,012	Depreciation, Amortisation, Impairment	15,123
3,026	Interest Payments	3,031
130	Precepts and Levies	135
1,402	Gain/Loss on the disposal of assets	10,494
284,022	**Total Expenditure**	**299,757**
	Income	
(43,694)	Fees Charges and Other Service Income	(46,309)
(12,992)	Interest and Investment Income	(13,228)
(32,607)	Income from Council Tax and Non Domestic Rates	(34,182)
(185,132)	Governent Grants and Contribtions	(179,991)
(274,425)	**Total Income**	**(273,710)**
9,597	**Surplus or deficit on the provision of services**	**26,047**

Note 8: Other Operating Expenditure and Transfer of School Assets

This note provides a breakdown of the various components included within the Other Operating Expenditure and Transfer of School Assets lines of the Comprehensive Income and Expenditure Statement.

2015/16 £000s		2016/17 £000s
130	Parish council precepts and levies	135
(203)	Receipts from Sale of Former Council Houses	(161)
-	Loss resulting from Transfer of School Assets	8,876
560	(Gain) or loss on the disposal of non-current assets	1,192
487		**10,042**

Note 9: Financing and Investment Income and Expenditure

This note provides a breakdown of the various components included within the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

2015/16 £000s		2016/17 £000s	Note
3,014	Interest payable and similar charges on borrowing	3,004	37
12	Finance lease Interest payable	27	37
3,786	Pensions Interest Cost & Expected Return on Pensions Assets	4,121	45
(354)	Interest Receivable and Similar Income	(373)	37
(403)	Net (Gain) / Loss on Investment Properties	(493)	16
(1,316)	Changes in fair values of investment properties	(2,277)	16
4,739		**4,009**	

Note 10: Taxation and Non-Specific Grant Income

Taxation and Non-Specific Grant Income comprises the following:

2015/16 £000s		2016/17 £000s	Note
32,607	Council Tax Income	34,182	
(5,724)	NNDR Distribution	16,860	
21,451	NNDR Safety Net Grant	7	
33,552	Non-ring Fenced Government Grants	28,664	
9,265	Capital Grants and Contributions	8,477	
91,151		**88,190**	27

Note 11 - Councillor's Allowances & Expenses

The Council has decided to provide this additional note to provide a detailed breakdown of the Basic Allowance and Special Responsibility Allowances (SRAs) paid to individual Councillors for 2016/17, together with other expenses and costs allocated to individual Councillors.

This detailed disclosure exceeds the minimum legal requirements specified by the Government in "Statutory Instrument 2003 Number 1021 – The Local Authorities (Councillors Allowances) (England) Regulations 2003" which requires local authorities to publish details of the amounts paid to individual Councillors for each financial year for the following categories:

- Basic Allowance and Special Responsibility Allowances;
- Dependent Carers Allowance;
- Travelling and Subsistence Allowance; and
- Co-optees Allowances.

The Council paid no Dependent Carers Allowances or Co-optees Allowances in 2016/17 or 2015/16.

The detailed arrangements for paying the Basic Allowance, SRAs and other expenses are defined by specific rules in the Council's constitution. The key components of these rules are described below:

Basic and Special Responsibility Allowances

The value of the Basic and Special Responsibility Allowances (SRAs) paid by the Council are based on recommendations made by the Independent Remuneration Panel (IRP).

The Council considered a report from IRP on 3 July, 2014 which recommended increasing the Basic Allowance to £6,267 from 1 April, 2014 with a further increase to £6,517 from 1 April, 2015.

The Council did not approve these increases and determined to limit the increase in the Basic Allowance to the level of the Local Government pay award. As there was not a percentage increase in Local Government pay on 1 April, 2014 the Basic Allowance was frozen for the period 1 April, 2014 to 31 December, 2014 at £5,825, the same level as in 2013/14.

With effect from 1 January, 2015 a Local Government pay award of 2.2% was agreed and the Basic Allowance increased to £5,953. The 2.2% increase was also applied to the Special Responsibility Allowance, these allowances were retained for 2016/17. A number of Councillors determined to waive this increase and this is reflected in the detailed table of allowances and expenses.

General and General Subsistence

This covers expenses claimed by Councillors for travel and subsistence within a 35 mile radius of Hartlepool in respect of approved duties as a Councillor. In some instances this includes the travel expenses claimed by individual Councillors in their role representing the Council on Regional Organisations.

Telephone Expenses

Councillors can be reimbursed for the cost of line and telephone rental. Councillors are also eligible to claim for installing a telephone line if a line is not already connected. Councillors cannot claim for the cost of telephone calls.

Taxation, National Insurance and Pensionable Status of Allowances

Individual Councillors pay income tax and national insurance on all allowances payable to them. These allowances are not pensionable. When a Councillor loses office all allowances stop with immediate effect and no payments are made for the loss of office.

Note 11: Councillor's Allowances & Expenses

Table 1 - Councillor's Allowances & Expenses

The total amount paid to Councillors' in respect of basic, special responsibility and travel and subsistence allowances was £268,769.28 (2015/16: £270,528.27). An analysis of the allowance payments are detailed below.

Councillor	Basic Allowance £	Special Responsibility Allowance £	General Travel £	General Subsistence £	Telephone Expenses £	Total 2016/17 £
Ainslie J (01.04.16 - 08.05.16)	624.10	-	-	-	-	**624.10**
Akers-Belcher C	5,952.96	17,859.00	714.59	254.67	-	**24,781.22**
Akers-Belcher S J	5,952.96	5,072.82	-	-	-	**11,025.78**
Atkinson K (01.04.16 - 08.05.16)	624.10	140.38	-	-	-	**764.48**
Barclay A	5,952.96	-	12.70	-	-	**5,965.66**
Beck P	5,952.96	528.12	-	-	71.96	**6,553.04**
Belcher S	5,952.96	-	-	-	-	**5,952.96**
Black J (09.05.16 - 31.03.17)	5,328.86	576.97	-	-	-	**5,905.83**
Brash J (01.04.16 - 08.05.16)	610.69	-	-	-	-	**610.69**
Buchan B (09.05.16 - 31.03.17)	5,328.86	-	-	-	-	**5,328.86**
Clark A	5,952.96	5,600.94	35.90	-	-	**11,589.80**
Cook R W	5,952.96	5,952.96	-	-	-	**11,905.92**
Cranney K H	5,952.96	5,952.96	16.00	35.79	-	**11,957.71**
Fleet M (01.04.16 - 08.05.16)	624.10	624.10	-	-	-	**1,248.20**
Flemming T (07.10.16 - 31.03.17)	2,880.47	-	-	-	-	**2,880.47**
Gibbon S (01.04.16 - 08.05.16)	624.10	-	-	-	-	**624.10**
Griffin S (01.04.16 - 08.05.16)	624.10	-	-	-	-	**624.10**
Hall G G	5,952.96	-	-	-	-	**5,952.96**
Hamilton L (09.05.16 - 31.03.17)	5,328.86	-	-	-	-	**5,328.86**
Harrison B (09.05.16 - 31.03.17)	5,328.86	-	-	-	-	**5,328.86**
Hind T	5,952.96	-	-	-	-	**5,952.96**
Hunter D (09.05.16 - 31.03.17)	5,328.86	-	-	-	-	**5,328.86**
Jackson P (01.04.16 - 18.08.16)	2,272.37	-	-	-	-	**2,272.37**
James M A	5,952.96	5,996.88	-	-	-	**11,949.84**
Lauderdale J	5,825.04	-	-	-	-	**5,825.04**
Lawton P	5,952.96	-	-	-	-	**5,952.96**
Lindridge J	5,952.96	-	-	-	-	**5,952.96**
Loynes B	5,952.96	3,043.92	-	-	-	**8,996.88**
Martin-Wells R	5,952.96	5,952.96	-	-	-	**11,905.92**
Moore S (09.05.16 - 31.03.16)	5,328.86	-	-	-	-	**5,328.86**
Morris G	5,952.96	528.12	-	-	-	**6,481.08**
Richardson C	5,952.96	3,945.55	15.55	-	-	**9,914.06**
Riddle D	5,825.04	-	-	-	-	**5,825.04**
Robinson J	5,952.96	-	-	-	-	**5,952.96**
Simmons C (01.04.16 - 08.05.16)	624.10	624.10	-	-	-	**1,248.20**
Sirs K	5,952.96	-	-	-	243.60	**6,196.56**
Springer G A	5,952.96	132.03	6.00	-	144.93	**6,235.92**
Tempest S (01.04.16 - 20.03.17)	5,776.93	2,938.30	-	-	-	**8,715.23**
Tempest J (09.5.16 - 31.03.17)	5,328.86	1,600.30	-	-	-	**6,929.16**
Thomas Stephen	5,952.96	5,072.82	-	-	-	**11,025.78**
Thompson P	5,825.04	-	-	-	-	**5,825.04**
Total 2016/17	**195,074.36**	**72,143.23**	**800.74**	**290.46**	**460.49**	**268,769.28**
Totals 2015/16	195,907.84	72,166.89	1,199.35	0.00	1,254.19	270,528.27
Totals 2014/15	192,275.50	71,096.03	817.41	0.00	293.69	264,482.63

Note 11: Councillor's Allowances & Expenses

Table 2 - Costs associated with Council Approved Conferences

The Council has an approved list of conferences which specific Councillors are authorised to attend as representatives of the Council, covering the following conferences:

- National Association of Councils
- Local Government Association

The conferences and travel/accommodation arrangements are booked by officers of the Council on behalf of the Councillor(s) attending the conference. The costs are paid directly by the Council and are not based on claims submitted by individual Councillors. The costs paid by the Council for conference fees, travel and accommodation are then recorded against the individual Councillor who attended the event.

Conference Subsistence, relates to expenses claimed by Councillors for 'out of pocket expenses' whilst staying away from Hartlepool where meals are not provided for in the overall conference fees. The allowances claimable are based on approved national subsistence rates.

The total amount paid by the Council on costs associated with Council Conferences was £12,226.27 (2015/16: £12,561.13). An analysis of the payments are detailed below.

Councillor	Conference Travel £	Conference Subsistence £	Conference Fees £	Conference Accommodation £	Total 2016/17 £
Akers-Belcher C	771.35	-	1,750.00	939.83	**3,461.18**
Akers-Belcher S J	-	-	1,750.00	672.09	**2,422.09**
Barclay A	-	-	-	-	**0.00**
Belcher S	92.87	-	1,400.00	480.00	**1,972.87**
Clark A	-	-	350.00	217.50	**567.50**
Cranney K H	171.25	-	526.40	151.67	**849.32**
James M A	92.86	-	1,750.00	600.00	**2,442.86**
Lindridge J	40.45	-	350.00	120.00	**510.45**
Totals for 2016/17	**1,168.78**	**0.00**	**7,876.40**	**3,181.09**	**12,226.27**
Totals for 2015/16	507.60	0.00	8,140.00	3,913.53	12,561.13
Totals for 2014/15	656.21	35.75	6,960.75	2,883.40	10,536.11

Table 3 - The Council's appointed representatives on Cleveland Fire Authority

The following Councillors were the Council's appointed representatives on Cleveland Fire Authority and received a separate allowance for this additional responsibility which was funded from the Fire Authority budget, as detailed below. Further details of these allowances can be obtained from the Fire Authority.

Councillor	Cleveland Fire Authority: Basic Allowances £	Special Responsibility Allowances	Travel, Subsistence or Conference Allowances £	Total £	Period of Office
Akers-Belcher S J	420.51	-	-	**420.51**	01/04/16 - 09/06/16
Cook R W	2,193.96	-	-	**2,193.96**	01/04/16 - 31/03/17
James M	2,193.96	-	8.10	**2,202.06**	01/04/16 - 31/03/17
Martin-Wells R	2,193.96	-	-	**2,193.96**	01/04/16 - 31/03/17
	7,002.39	-	**8.10**	**7,010.49**	

The Council's appointed representatives on River Tees Port Authority

Councillor S Thomas was re-elected Vice-Chair of River Tees Port Health Authority for the period 03/06/16 - 02/06/17. A Special Responsibility Allowance of £1,270 is payable for that period. An amount of £1,258 was paid to Councillor S Thomas for the period 01/04/16 - 31/03/17.

Note 12 - Officers' Remuneration

In accordance with the requirements of the Accounts and Audit Regulations (England) 2015 the Council is required to disclose details of remuneration for Senior Employees and those earning more than £50,000. Senior Employees are defined as the Chief Executive, statutory Chief Officers and all other senior managers reporting directly to the Chief Executive. Details of the remuneration for these officers are provided below.

Senior Officers with a salary of £150,000 or more per year

The Council had no senior officers with a salary of £150,000 or more per year during 2016/17. The highest paid officer was the Chief Executive; Gill Alexander was appointed in June 2015. The paygrade is set at £141,400 to £151,500 per year (including national cost of living increase). Her annual salary in 2016/17 was incrementally increased to £143,420 in June 2016.

The Chief Executive is the senior officer who leads and takes responsibility for the work of the 2,631 (2,796 in 2015/16) full-time equivalent employees, including schools, and runs the Local Authority on a day to day basis. The role of Chief Executive is a full time appointment.

Permanent post holders are selected on merit, against objective criteria, following public advertisement. They are appointed by the whole Council.

As Head of Paid Service, the Chief Executive works closely with elected Councillors to deliver the following:

Leadership: working with elected Councillors to ensure strong and visible leadership and direction, encouraging and enabling managers to motivate and inspire their teams

Strategic Direction: ensuring all staff understand and adhere to the strategic aims of the organisation and follow the direction set by the elected Councillors.

Policy Advice: acting as the principal policy adviser to the elected Members of the Council to lead the development of workable strategies which will deliver the political objectives set by Members.

Partnerships: leading and developing strong partnerships across the local community to achieve improved outcomes and better public services for local people.

Operational Management: overseeing financial and performance management, risk management, people management and change management within the Council.

Details of the Chief Executive’s remuneration is shown in the following tables:-

2016/17 - TABLE A

Post holder information (Post title and name)	Salary	Pension Contributions (Note h)	Total Remuneration including Pension Contributions 2016/17	Note
Chief Executive	**£**	**£**	**£**	
Gill Alexander	143,083	20,318	163,401	
Total	143,083	20,318	**163,401**	*a*

2015/16 - TABLE B

Post holder information (Post title and name)	Salary	Pension Contributions (Note g)	Total Remuneration including Pension Contributions 2015/16	Note
Chief Executive	**£**	**£**	**£**	
David Stubbs (April 15 - May 15)	24,000	-	24,000	
Gill Alexander (June 15 - March 16)	116,667	16,567	133,234	
Total	140,667	16,567	**157,234**	*a*

(a) David Stubbs retired as Chief Executive on 31 May, 2015 and was replaced by Gill Alexander (previously Director of Child and Adult Services) who was appointed from 1 June, 2015. There were no employer pension contributions in respect of Mr Stubbs as he ceased to be a member of the pension scheme on 1 April, 2012.

Note 12 - Officers' Remuneration

Senior Officers reporting directly to the Chief Executive

During 2016/17 Council implemented a revised senior management structure. Remuneration details for these posts are shown below.

Director of Child and Adult - responsible for a gross annual revenue budget (excluding schools) of £126m and managing 593 full-time equivalent employees (excluding schools) who provide a diverse range of services, including education and early years related services, services for vulnerable children and families including looking after children at risk, child and adult protection services, young offenders, children's fostering and adoption services, caring for older people, people with mental health issues and people with physical or learning disabilities.

Director of Regeneration and Neighbourhoods - responsible for a gross annual revenue budget of £52m and managing 694 full-time equivalent employees who provide a diverse range of services, including planning and building control, economic development and regeneration, community safety, refuse collection, street cleansing, highways maintenance, car parks, libraries, culture and leisure services.

Director of Public Health - responsible for a gross annual revenue budget of £13m and managing 105 full-time equivalent employees who provide a diverse range of services including substance misuse, drug prevention, school nursing, sexual health, smoking cessation, Consumer Services and sport and recreation. The post holder left the Council in March 2017.

Director of Finance & Policy - responsible for a gross annual revenue budget of £56m and managing 184 full-time equivalent employees who provide a diverse range of services including Council Tax setting and collection, Business Rates, Benefits, HR, Corporate IT, Corporate Finance and Corporate Strategy.

2016/17 - Table C

Post Holder Information (Post Title)	**Salary**	**Pension Contributions (Note h)**	**Total Remuneration including Pension Contributions 2016/17**	***Note***
	£	**£**	**£**	
Director of Child & Adult	102,683	14,581	**117,264**	*b*
Director of Regeneration & Neighbourhoods	107,636	15,297	**122,933**	*c*
Director of Public Health	75,786	10,837	**86,623**	*d*
Director of Finance & Policy:				
Chief Finance Officer (April - December 16)	62,633	8,894	**71,527**	*e*
Director of Finance & Policy (January - March 17)	25,250	3,586	**28,836**	
Total Director of Finance & Policy	87,883	12,480	**100,363**	*e*
Chief Solicitor	97,446	12,861	**110,307**	*f*
Assistant Chief Executive	79,754	8,894	**88,648**	*g*
	639,071	87,430	726,501	

Note 12 - Officers' Remuneration

2015/16 - Table D

Post Holder Information (Post Title)	**Salary**	**Pension Contributions (Note g)**	**Total Remuneration including Pension Contributions 2015/16**	***Note***
	£	**£**	**£**	
Director of Child & Adult (April - May 15)	18,333	2,603	**20,936**	*b*
Director of Child & Adult (June 15 - March 16)	83,333	11,833	**95,166**	*b*
Total Director of Child & Adult	101,666	14,436	**116,102**	*b*
Director of Regeneration & Neighbourhoods	104,308	14,861	**119,169**	*c*
Director of Public Health	81,481	11,652	**93,133**	*d*
Chief Finance Officer	82,683	11,741	**94,424**	*e*
Chief Solicitor	93,196	13,234	**106,430**	*f*
Assistant Chief Executive	82,683	11,741	**94,424**	*g*
	546,017	77,665	**623,682**	

A national 1% pay award was agreed for the Chief Executive and all Senior Officers except the Director of Public Health from 1 April 2016.

Notes

(c) The salary scale for the Director of Regeneration & Neighbourhoods for 2016/17 was £101,000 to £111,100. The current postholder's salary was incrementally increased from £107,060 to £109,080 on 3 December, 2016 in line with agreed contractual arrangements.

(d) The Director of Public Health joined the authority on 1 April, 2013 under TUPE transfer on a salary of £81,481. The postholders NHS terms and conditions of employment have applied for a period of three years ending 31 March, 2016 from TUPE transfer. During this period the postholder was not subject to an incremental salary scale and remained on a fixed salary of £81,481. The post holder left 5 March 2017.

(e) With effect from 1 January 2017 the Assistant Chief Executive and Chief Finance Officer were deleted and a new post of the Director of Finance and Policy was established. The Assistant Chief Executive left the Authority and no redundancy payment was made. The salary scale for the Chief Finance Officer's post for 2016/17 is £77,943 to £83,510 and for the Director of Finance and Policy is £101,000 to £111,100. The Director of Finance and Policy also acts as Treasurer to Cleveland Fire Authority and receives no payment for this additional responsiblity. The Council receives a payment from Cleveland Fire Authority for the time spent discharging this responsiblity and details are provided in the Related Party note.

(f) The salary scale for the Chief Solicitor's post during 2016/17 is £77,943 to £83,510. The Chief Solicitor's salary includes a payment of £3,432 (£3,432 in 2015/16) in respect of this post holder also acting as Legal Officer to Cleveland Fire Authority. This cost is paid for by the Fire Authority. The post holder also received £10,504 in 2016/17 (£7,081 in 2015/16) as the Council's designated Returning Officer for elections.

(g) The salary scale for the Assistant Chief Executive's post for 2016/17 is £77,943 to £83,510. This post was deleted from 1 January, 2017 as details in note (e).

(h) The pension contributions included in the Remuneration Disclosure Tables only relate to the Council's contribution to the pension scheme. In addition, the employee contributes a percentage of their salary to the scheme. For salaries between £60,701 to £86,000 this is 9.9%, for salaries between £86,001 to £101,200 it is 10.5% and for salaries between £101,201 to £151,800 the rate is 11.4%.

No expense allowances were paid to Council Officers during 2016/17

Note 12 - Officers' Remuneration

Employees with a salary of £50,000 or more

In accordance with the Accounts and Audit Regulations (England) 2015, the number of employees including school employees employed by the Council whose remuneration was £50,000 or greater is detailed in the table below in bands of £5,000. This table excludes details of senior officers set out in the tables overleaf. The bandings have been used since 2002/03 and are not indexed and therefore do not make any adjustment for inflationary increases each year. If the starting banding had been indexed for cost of living increases for local authority employees then it would be £62,400.

'Remuneration' is measured as gross pay (before deduction of employees' pension contributions), plus compensation for loss of office and any other payments receivable on the termination of employment in line with guidance.

From April 16 there was a nationally agreed pay award for employees of 1%.

The details shown for 2016/17 under the heading "Left in Year" includes the annual salary payment in the year plus the termination costs of making these posts redundant. Details of the termination costs are provided in Note 13.

TABLE E - NON-SCHOOLS EMPLOYEES

2015/16 No. of Non-School Employees			Remuneration Band (£)	2016/17 No. of Non-School Employees		
Non School	*Left in Year*	*Total*		***Non School***	***Left in Year***	***Total***
6	-	6	50,000 to 54,999	**7**	**-**	**7**
4	-	4	55,000 to 59,999	**4**	**2**	**6**
4	1	5	60,000 to 64,999	**2**	**-**	**2**
3	-	3	65,000 to 69,999	**1**	**-**	**1**
1	1	2	70,000 to 74,999	**-**	**-**	**-**
-	1	1	75,000 to 79,999	**2**	**3**	**5**
2	-	2	80,000 to 84,999	**1**	**-**	**1**
20	3	23		**17**	**5**	**22**

TABLE F - SCHOOL EMPLOYEES

2015/16 No. of School Employees			Remuneration Band (£)	2016/17 No. of School Employees		
School	*Left in Year*	*Total*		***School***	***Left in Year***	***Total***
7	-	7	50,000 to 54,999	**3**	**-**	**3**
3	-	3	55,000 to 59,999	**4**	**1**	**5**
7	-	7	60,000 to 64,999	**6**	**-**	**6**
6	-	6	65,000 to 69,999	**6**	**-**	**6**
1	-	1	70,000 to 74,999	**1**	**-**	**1**
24	-	24		**20**	**1**	**21**

The remuneration for school employees is determined by each individual Governing Body in accordance with national pay guidelines. Academies, Foundation and Voluntary Aided school employees are excluded from the Table as the Governing Body, not the Council, are the employer.

Note 13: Termination Costs

In response to cuts in Government grants the Council has had to make significant reductions in ongoing expenditure. The Council has mitigated the impact on staff by managing vacancies and redeploying staff where possible. However, as staff costs make up the largest single element of the Council's budget it has not been possible to avoid reductions in staffing levels. Therefore, in 2016/17 a total of 59 employees (47 in 2015/16) either took voluntary redundancy or were made compulsorily redundant. The 2016/17 costs of this involved payments of £0.553m (£0.351m in 2015/16) to employees in the form of redundancy payments and £0.680m (£0.358m in 2015/16) to the pension fund in respect of retirement benefits. The Council also incurred other costs of £0.002m (£0.001m in 2015/16). These payments incorporate schools and further details are provided in Note 44.

The Council calculates redundancy pay based on the actual salary paid to individual employees, with a maximum redundancy payment not exceeding 30 weeks pay with no enhancements. Retirement costs are based on national arrangements applying to all Local Government Pension schemes.

For non-schools employees the Council adopts robust arrangements for approving both compulsory and voluntary redundancies / early retirements and only approves applications where there is a permanent budget saving and the one-off redundancy / early retirement costs have a pay back period of 3.05 years or less. In 2016/17 the average pay back period was 13 months (9 months in 2015/16). In 2016/17 this has enabled the authority to achieve permanent salary savings of £1.102m (£0.818m in 2015/16).

The following tables provide details by band and of the number and total cost of the compulsory and voluntary redundancies for non-school and school employees.

TABLE G - NON-SCHOOLS EMPLOYEES

2015/16					**2016/17**			
No of compulsory redundancies	No of voluntary redundancies	Total no of redundancies by band	Total cost of redundancies by band £	**Remuneration Band (£)**	**No of compulsory redundancies**	**No of voluntary redundancies**	**Total no of redundancies by band**	**Total cost of redundancies by band £**
1	32	33	210,053	0 to 20,000	1	36	37	247,810
-	5	5	151,034	20,001 to 40,000	-	2	2	50,342
-	2	2	96,917	40,001 to 60,000	-	5	5	246,645
-	1	1	79,780	60,001 to 80,000	-	1	1	65,149
-	-	-	-	80,001 to 100,000	-	1	1	89,442
-	1	1	113,245	100,001 to 120,000	-	-	-	-
-	-	-	-	120,001 to 140,000	-	1	1	120,628
-	-	-	-	140,001 to 160,000	-	1	1	151,517
-	-	-	-	160,001 to 180,000	-	-	-	-
-	-	-	-	180,001 to 200,000	-	1	1	197,412
1	41	42	651,029		**1**	**48**	**49**	**1,168,945**

TABLE H - SCHOOLS EMPLOYEES

2015/16					**2016/17**			
No of compulsory redundancies	No of voluntary redundancies	Total no of redundancies by band	Total cost of redundancies by band £	**Remuneration Band (£)**	**No of compulsory redundancies**	**No of voluntary redundancies**	**Total no of redundancies by band**	**Total cost of redundancies by band £**
4	-	4	37,524	0 to 20,000	2	8	10	64,310
1	-	1	22,000	20,001 to 40,000	-	-	-	-
5	-	5	59,524		**2**	**8**	**10**	**64,310**

Decisions in relation to School Employees are made by individual School Governing Bodies and not by the Council. Foundation and Voluntary Aided school employees are excluded from Table H as the Governing Body, not the Council, are the employer.

Note 14: Non Current Assets - Property, Plant & Equipment

This note shows the movements in the value of non current assets (Property, Plant and Equipment) during 2016/17.

Movements in 2016/17

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	PP&E Under Construction	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or Valuation								
As at 1 April 2016	8,579	147,542	33,436	119,681	5,653	7,838	7,710	**330,439**
Additions	1,190	5,930	1,978	2,911	76	-	6,099	**18,184**
Accumulated Depreciation Written Off to Gross Carrying Amount	(347)	(1,408)	-	-	-	(54)	-	**(1,809)**
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	(170)	4,704	-	-	-	745	-	**5,279**
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	(3,024)	(2,605)	-	-	-	(1,176)	-	**(6,805)**
Derecognition-Disposals	-	(9,385)	(1,564)	-	-	(1,100)	-	**(12,049)**
Reclassified (to)/from Held for Sale	120	-	-	-	-	-	-	**120**
Reclassified (to)/from Investment Property	-	100	-	-	(10)	-	-	**90**
Other movements in Cost or Valuation	125	1,214	-	1,945	(19)	757	(4,021)	**1**
At 31 March 2017	**6,473**	**146,092**	**33,850**	**124,537**	**5,700**	**7,010**	**9,788**	**333,450**
Accumulated Depreciation and Impairment								
As at 1 April 2016	(168)	(2,827)	(19,444)	(48,584)	-	-	-	**(71,023)**
Depreciation Charge	(146)	(2,122)	(3,387)	(3,974)	-	(15)	-	**(9,644)**
Depreciation written out to the Revaluation Reserve	(33)	(819)	(100)	-	-	-	-	**(952)**
Accumulated Depreciation Written Off to Gross Carrying Amount	347	1,408	-	-	-	54	-	**1,809**
Derecognition - Disposals	-	564	1,259	-	-	9	-	**1,832**
Other movements in Depreciation and Impairment	-	49	-	-	-	(48)	-	**1**
At 31 March 2017	**-**	**(3,747)**	**(21,672)**	**(52,558)**	**-**	**-**	**-**	**(77,977)**
Net Book Value								
At 31 March 2017	6,473	142,345	12,178	71,979	5,700	7,010	9,788	**255,473**
Nature of Asset Holding								
Owned	6,473	142,345	11,706	71,979	5,700	7,010	9,788	**255,001**
Finance Lease			472					**472**
Total	**6,473**	**142,345**	**12,178**	**71,979**	**5,700**	**7,010**	**9,788**	**255,473**

Note 14: Non Current Assets - Property, Plant & Equipment

Movements in 2015/16

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	PP&E Under Construction	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or Valuation								
As at 1 April 2015	6,952	137,288	31,549	111,935	5,691	3,242	8,217	**304,874**
Additions	2,703	3,680	2,011	4,199	3	895	6,088	**19,579**
Accumulated Depreciation Written Off to Gross Carrying Amount	(9)	(2,325)	-	-	-	(40)	-	**(2,374)**
Accumulated Impairment Written Off to Gross Carrying Amount	-	(2,191)	-	-	-	(998)	-	**(3,189)**
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	349	8,602	-	-	-	3,022	-	**11,973**
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	(2,084)	1,145	-	-	-	(732)	-	**(1,671)**
Derecognition-Disposals	-	(130)	(152)	-	(41)	(348)	(103)	**(774)**
Reclassified (to)/from Held for Sale	-	-	-	-	-	(100)	-	**(100)**
Reclassified (to)/from Investment Property	-	(181)	-	-	-	2,300	-	**2,119**
Other movements in Cost or Valuation	668	1,654	28	3,547	-	597	(6,492)	**2**
At 31 March 2016	**8,579**	**147,542**	**33,436**	**119,681**	**5,653**	**7,838**	**7,710**	**330,439**
Accumulated Depreciation and Impairment								
As at 1 April 2015	(87)	(2,415)	(16,044)	(44,812)	-	(31)	-	**(63,389)**
Depreciation Charge	(90)	(2,158)	(3,451)	(3,771)	-	(28)	-	**(9,498)**
Depreciation written out to the Revaluation Reserve	-	(656)	(99)	-	-	(1)	-	**(756)**
Accumulated Depreciation Written Off to Gross Carrying Amount	9	2,325	-	-	-	40	-	**2,374**
Accumulated Impairment Written Off to Gross Carrying Amount	-	54	-	-	-	-	-	**54**
Derecognition - Disposals	-	7	150	-	-	14	-	**171**
Reclassified (to)/from Investment Property	-	15	-	-	-	7	-	**22**
Other movements in Depreciation and Impairment		1	-	(1)	-	(1)	-	**(1)**
At 31 March 2016	**(168)**	**(2,827)**	**(19,444)**	**(48,584)**	**-**	**-**	**-**	**(71,023)**
Net Book Value								
At 31 March 2016	8,411	144,715	13,992	71,097	5,653	7,838	7,710	**259,416**
Nature of Asset Holding								
Owned	8,411	144,715	13,464	71,097	5,653	7,838	7,710	**258,888**
Finance Lease			528					**528**
Total	**8,411**	**144,715**	**13,992**	**71,097**	**5,653**	**7,838**	**7,710**	**259,416**

Note 14: Non Current Assets - Property, Plant & Equipment

Depreciation

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

- Council Dwellings - 50 years.
- Other Land and Buildings - straight-line allocation over the useful life of the property as estimated by the valuer, between 25 and 40 years.
- Vehicles, Plant, Furniture & Equipment - straight-line allocation over the useful life of the asset, up to 15 years.
- Infrastructure - between 15 and 100 years.

Revenue Expenditure Funded from Capital Under Statute

The cost of Revenue Expenditure Funded from Capital Under Statute is charged to the Comprehensive Income and Expenditure Account. An amount of £1.768m (£1.639m in 2015/16) has been charged to Services and is shown as a reconciling item within Note 5 (Adjustments between Accounting Basis and Funding Basis under Regulations. This was financed by corporate resources of £0.339m (£0.842m in 2015/16), capital grants of £1.323m (£0.368m in 2015/16) and prudential borrowing £0.106m (£0.429m in 2015/16).

Capital Commitments

As at 31 March, 2017, the Council had rephased capital expenditure totalling £14.956m into 2017/2018, of which £5.078m will be funded from grant, £4.386m will be funded by prudential borrowing and the remaining £5.492m will be funded from the Council's own resources. The comparable rephased capital expenditure at 31 March, 2016 was £12.881m. The Council has entered into a number of contracts for which capital monies are committed.

The major commitments are:

Scheme	Total Project Budget £000s	Expenditure over Years to 31 March 17 £000s	Commitment £000s
Coast Protection	8,061	7,156	905
Empty Property Purchasing Scheme - Phase 2	4,456	2,407	2,049

Surplus Assets - Fair Value Disclosures

Details of the authority's surplus assets and information about the fair value hierarchy at 31 March, 2017 are as follows:

Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1) £000s	Other significant observable inputs (Level 2) £000s	Significant observable inputs (Level 3) £000s	Fair Value as at 31 March 2017 £000s
Surplus Assets	-	6,858	153	**7,011**
Total	**-**	**6,858**	**153**	**7,011**

There were no transfers between Levels 1, 2 and 3 during the year.

Significant Observable inputs – Level 2.
The surplus assets within this input level are mainly measured using sales and valuations of comparable properties to establish market values. Market Conditions are such that there are similar properties that are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy. Assets with development potential are measured to reflect potential development value.

Significant Observable Inputs – Level 3
The surplus assets within this input level are measured as in Level 2. However, they are categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements and there is no reasonably available information that indicates that market participants would use different assumptions.

Change in Valuation Method
There has been no change in the valuation method from 2015/6. In 2016/17 the estimation of the fair value of the Council's Surplus Assets is based on Fair Value Market Value.

Note 15: Non Current Assets - Property, Plant & Equipment - Revaluations

The Council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at current value is revalued at least every five years. All valuations were carried out internally and valuations are based on certificates issued by the Council's Estates Manager, Mr D Clarke, a member of the Royal Institute of Chartered Surveyors. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on depreciated historic cost.

The significant assumptions applied in estimating the current values unless otherwise noted in the valuation reports are:

- Properties are in good condition and repair.
- Properties are freehold and with vacant possession.
- Properties will continue to be used by the Council into the foreseeable future.
- Properties do not contravene planning and other statutory matters.

The following statement shows the progress of the Council's rolling programme for the revaluation of non current assets and property, plant and equipment, excluding Community Assets (£5.7m), Heritage Assets (£14.947m), Infrastructure Assets (£71.979m) and Property, Plant and Equipment under construction (£9.788m). The basis for the valuation is set out in the Statement of Accounting Policies.

	Operational Assets				
	Council Dwellings £000s	**Other Land & Buildings £000s**	**Vehicles, Plant & Equipment £000s**	**Surplus Assets £000s**	**Total £000s**
Valued at Historical Cost	-	-	12,178	-	12,178
Valued at current value as at:					
Current Year					
2016/2017	6,473	47,692	-	6,962	61,127
2015/2016	-	43,474	-	48	43,522
2014/2015	-	15,667	-	-	15,667
2013/2014	-	29,737	-	-	29,737
2012/2013	-	5,775	-	-	5,775
Total	**6,473**	**142,345**	**12,178**	**7,010**	**168,006**

Alternative Valuation Model

Council Dwellings are measured at current value - social housing, Other Land and Buildings are measured at current value and Surplus Assets are measured at fair value. If the Council had chosen to measure the value of these assets under the cost model, their carrying amount as at 31 March, 2017 would have been:

	£000s
Council Dwellings	5,162
Other Land & Buildings	49,691
Surplus Assets	2,524

Custodian Authority Assets

The Balance Sheet excludes an asset held by the Council in its capacity as Custodian Authority. This asset was last revalued in 2015/16 at £0.003m. The interest in this asset was passed to the Council following the abolition of Cleveland County Council on 1 April, 1996. This asset is held on behalf of the four unitary authorities pending its disposal. Any sale proceeds will be distributed to the four unitary authorities in accordance with an agreed basis.

Note 15: Non Current Assets - Property, Plant & Equipment - Revaluations

Revaluation Reserve Balance

The following is an analysis of the Revaluation Reserve by asset type.

2015/16 £000s		**2016/17 £000s**
1,445	Council Dwellings	1,311
43,775	Other Land & Buildings	44,116
299	Vehicles, Plant and Equipment	199
8	Community Assets	7
3,183	Surplus Assets	4,438
595	Investment Properties	603
4,843	Heritage Assets	4,843
69	Assets Held for Sale	-
54,217		**55,517**

Note 16: Non Current Assets - Investment Property

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

2015/16 £000s		**2016/17 £000s**
(562)	Rental income from investment property	(590)
159	Direct operating expenses arising from investment property	97
(403)	**Net (gain)/loss**	**(493)**

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

The Council leases a number of properties where it also acts as a lessor. These properties are classed as investment properties. The following table summarises the movement in the fair value of investment properties over the year:

2015/16 £000s		**2016/17 £000s**
16,476	Balance at the start of the year	15,664
	Additions:	
	Acquisitions	
23	Subsequent expenditure	42
(10)	Disposals	(85)
-	Impairment	(192)
1,316	Net Gains/(Losses) from fair value adjustments	2,277
	Transfers	
(2,141)	(To)/from Property, Plant & Equipment	(90)
15,664	**Balance at the end of the year**	**17,616**

Note 16: Non Current Assets - Investment Property

Investment Property - Fair Value Disclosures

Details of the authority's investment properties and information about the fair value hierarchy at 31 March, 2017 are as follows:

Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1) **£000s**	Other significant observable inputs (Level 2) **£000s**	Significant observable inputs (Level 3) **£000s**	Fair Value as at 31 March 2017 **£000s**
Office Units	-	2,180	3	**2,183**
Commercial Units	-	14,209	1,224	**15,433**
Total	**-**	**16,389**	**1,227**	**17,616**

There were no transfers between Levels 1, 2 and 3 during the year.

Valuation Techniques used to determine level 2 and 3 Fair Values for Investment Properties.

Significant Observable Inputs - Level 2

The office and commercial units located in the local authority area are measured using the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream. The approach has been developed using the authority's own data requiring it to factor in assumptions such as the duration and timing of cash inflows and outflows, rent growth, occupancy level, bad debt levels and maintenance costs. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy. In the remaining cases the properties are measured directly to capital values by reference to their potential development value.

Significant Unobservable Inputs - Level 3

The valuation for office and commercial units within this input level are measures as above. However, they are categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements and there is no reasonably available information that indicates that market participants would use different assumptions.

Highest and Best Use of Investment Properties

In all cases, the Council's investment properties have been valued on the basis of market value. In many cases the current value of the property is the 'highest and best', most valuable use of the site. However, in some cases such as development sites, the current use is not the 'highest and best' use but the valuations reflect the potential to realise the value through sale or development.

Note 17: Non Current Assets - Heritage Assets

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

2016/17 Cost or Valuation	Museum Exhibits & Art Collection	Civic Collection	Sculptures, Monuments & War Memorials	Total
	£000s	£000s	£000s	£000s
At 1 April 2016	13,363	354	1,230	14,947
At 31 March 2017	**13,363**	**354**	**1,230**	**14,947**

2015/16 Cost or Valuation	Museum Exhibits & Art Collection	Civic Collection	Sculptures, Monuments & War Memorials	Total
	£000s	£000s	£000s	£000s
At 1 April 2015	13,137	354	1,230	14,721
Additions	226	-	-	226
At 31 March 2016	**13,363**	**354**	**1,230**	**14,947**

Museum Exhibits & The Art Collection

The Council's Museum Service possesses a fine collection of historical objects, information and artworks. These are displayed within the Museum of Hartlepool, the Hartlepool Art Gallery and selected buildings such as the Civic Centre and Borough Buildings, either as part of the permanent historical displays or as changing exhibitions. When not on display they are held in secure storage.

The collections are used as a valuable reference collection for researching the history and cultural identity of the town.

Hartlepool has an impressive and important collection of over 1,000 pieces of fine art. The collection is mainly Victorian and Edwardian in period, largely as a result of the founding collection by Sir William Gray. With few exceptions, most subsequent collecting has been work of artists living or working at least part of their lives in the Hartlepool area. There were no donations in 2016/17.

The Council also holds collections relating to Hartlepool's maritime heritage and social history. These include ship models, photographs, company records, ephemera and equipment. This also contains around 35,000 plans for the building of approximately 300 ships including the Wingfield Castle.

Almost all of the plans relate to ships built by Gray's shipyard from 1927 to the yards closure in 1961. When the shipyard closed, the plans were still of importance and often bought by other ship builders. In the mid 1980's many of the plans were returned to Hartlepool and now feature in the collection. A hugely informative collection is that preserved by Robert Wood, a local historian which contains over 40,000 examples of 19th century and early 20th century ephemera, manuscript material and posters from the Hartlepool printing firm owned by John Procter. The collection reflects the social aspects of life as well as the industry in the town.

Civic Collection

The Civic collection includes the Civic Regalia, ceremonial silverware, and a number of decorative artefacts. During 2011/12 the collection was valued at £0.354m by the External Valuers. In addition the Books of Remembrance have been included within the Civic Collection and are held at Historic Cost.

Note 17: Non Current Assets - Heritage Assets

Valuation of the Collections

Although there is no requirement to have Heritage assets externally valued, during 2011/12 External Valuers Anderson & Garland Ltd carried out an insurance based valuation of the assets. Museum exhibits and Works of Art were valued at £13.128m and £0.354m for the Civic Collection, compared to previous valuations of £8.417m and £0.350m respectively.

Sculptures, Monuments, War Memorials & Archaeology

The Council has recorded 11 Public Works of Art, 7 Sculptures, 6 War Memorials which are considered to principally contribute to knowledge and culture.

Policy and Management

The Council has an Acquisitions & Disposals Policy in place which sets out the acquisition, preservation, management and disposal of Heritage Assets. This is available on request.

Note 18: Long Term Investments

This note details the carrying values of the Council's investments.

2015/16 £000s		**2016/17 £000s**
-	Durham and Tees Valley Airport Limited	-
197	SUEZ Recycling and Recovery Tees Valley Limited (formerly SITA Tees Valley Limited)	197
197		**197**

Under Local Government Reorganisation the Council was allocated 2.47% of the shares in Durham Tees Valley Airport Limited, which has reduced to 1.08% upon the sale of the airport to Peel Investments (DVTA) LTD. The shares have no value (nil in 2015/16).

The Council has 196,845 £1 preference shares in SUEZ Recycling and Recovery Tees Valley Limited (formerly SITA Tees Valley Limited).

These assets are held on the balance sheet at Fair Value, further details in relation to the valuation of these assets is disclosed in Note 37 Financial Instruments.

Further details of the Council's long term investments are included in Note 30 Related Party Transactions.

Note 19: Long Term Debtors

This note sets out the value of Long Term Debtors held by the Council at 31 March, 2017.

2015/16 £000s		**2016/17 £000s**
6	Housing Advances	6
77	Trincomalee Loan and Advances	77
111	Car Loans to Employees	57
240	NDC Trust Loan	604
-	CCAD Loan	1,500
455	Other	453
889		**2,697**

On 25th June 2015 Full Council agreed to loan the Cleveland College of Art & Design (CCAD) £1.5m as part of the development of the Skills Quarter. The loan is over a period of 20 years to be reviewed after 3 years, at which point the college will seek to refinance with a bank or continue with the loan if this is not possible.

Note 20: Inventories

This note sets out the value of inventories held by the Council at 31 March, 2017.

2015/16 £000s		**2016/17 £000s**
712	Balance at 1 April	447
2,499	Purchases	2,312
(2,751)	Recognised as an expense in year	(2,487)
(13)	Written off balances	(11)
-	Written back balances	7
447	**Balance at 31 March**	**268**

Note 21: Short Term Debtors

This note sets out amounts owed to the Council as at 31 March, 2017.

2015/16		**2016/17**		
£000s		**Gross Debtor £000s**	**Impairment of Bad Debts £000s**	**Net Debtor £000s**
47,151	Central Government Bodies	4,246	-	4,246
1,075	Other Local Authorities	810	-	810
383	NHS Bodies	163	-	163
	Bodies external to general government:			
3,178	General and Other Debtors	5,054	(1,740)	3,314
1,503	Payments in Advance	1,387	-	1,387
2,632	Council Tax Payers	5,708	(2,540)	3,168
568	NNDR Payers	967	(467)	500
1,891	Trade Debtors	2,578	(587)	1,991
58,381		**20,913**	**(5,334)**	**15,579**

The decrease in Central Government Bodies relates to the Safety Net Government Grant (£21.5m) and Central Government's share of the deficit on the Collection Fund (£23.3m) in 2015/16 following the settlement of the Business Rates appeal for Hartlepool Power Station. The increase in Council Tax Payers relates to an increase in council tax arrears.

Note 22: Cash and Cash Equivalents

This note sets out details of the Council's cash in hand and instant access investment accounts in addition to the overdraft included in the Liabilities section of the balance sheet.

2015/16 £000s		**2016/17 £000s**
	Assets	
76	Bank and Imprests	72
6,166	Liquidity Investment Accounts	6,506
6,242		**6,578**
	Liabilities	
(1,317)	Bank Overdraft	(1,115)
4,925		**5,463**

Note 23: Assets Held for Sale (Less than one year)

This note shows the movement of items of property, plant or equipment, or groups of assets and liabilities whose carrying amount is to be recovered principally through a sale rather than its continued use by the Council.

2015/16 £000s		**2016/17 £000s**
1,120	Balance outstanding at start of year	120
	Assets newly classified as Held for Sale:	
120	Property, Plant and Equipment	-
	Assets declassified as Held for Sale:	
(20)	Property, Plant and Equipment	(120)
(1,100)	Assets sold	-
120	**Balance outstanding at year-end**	-

Note 24: Short Term Creditors

This note sets out amounts owed by the Council as at 31 March, 2017.

2015/16 £000s		**2016/17 £000s**
43,620	Central Government Bodies	4,529
958	Other Local Authorities	1,178
323	NHS Bodies	357
	Bodies external to General Government:	
5,016	General and Other Creditors	5,846
1,853	Trade Creditors	2,923
1,362	Employee Absences	1,476
603	Income in Advance	707
569	Council Tax Payers	626
2,285	NNDR Payers	721
56,589		**18,363**

The decrease in amounts owed to Central Government Bodies relates to Transitional Relief repayable to the Government in 2015/16, following the settlement of the Business Rates appeal for Hartlepool Power Station.

Note 25: Provisions

Total provisions at 31 March, 2017, were £3.078m (£4.094m in 2015/2016), as detailed below.

Current Liabilities

2015/16 £000s		Litigation £000s	Land Charges £000s	Rating Appeals £000s	MMI Insurance £000s	Total £000s
		2016/17				
1,192	**Balance at 1 April**	412	59	2,325	68	**2,864**
9,021	Additional provisions made in year	335	-	-	166	**501**
(7,393)	Amounts used in year	(9)	(19)	(3,695)	(173)	**(3,896)**
44	Transfer in Year	-	-	2,419	91	**2,510**
-	Unused amounts reversed in year	-	(40)	-	-	**(40)**
2,864	**Balance at 31 March**	738	-	1,049	152	**1,939**

Long Term Liabilities

2015/16 £000s		Custodian Authority Property Charges £000s	Land Charges £000s	Contaminated Land £000s	MMI Insurance £000s	Total £000s
		2016/17				
1,274	**Balance at 1 April**	97	-	634	499	**1,230**
(44)	Transfers in Year	-	-	-	(91)	**(91)**
1,230	**Balance at 31 March**	97	-	634	408	**1,139**

Custodian Authority Property Charges - this provision is earmarked to meet the Council's share of the costs of the Custodian Authority properties inherited from the former Cleveland County Council.

Litigation - the litigation provision has been created to cover planning appeals and other potential legal cost liabilities. The provision is based on a prudent estimate of the likely costs. However, the timing of these payments is uncertain.

Rating Appeals - following the implementation of the Business Rates Retention Scheme, this provision is earmarked to fund backdated appeals as a result of Rateable Value changes. These costs were previously met by Central Government.

In September 1992 Municipal Mutual Insurance (MMI), the Council's former insurers, ceased accepting new business. MMI and it's policyholders, including local authorities, have established a Scheme of Arrangement for the orderly rundown of the company. MMI do not have enough assets to meet the claims and liabilities currently outstanding. The Scheme of Arrangement provides that, if there is a likelihood of a shortfall, MMI can reclaim from the major policyholders part of the claims paid from 1 October, 1992. The Scheme of Arrangement under section 899 of the Companies Act 2006 was triggered in November 2012. In February 2013 the Creditors Committee set a levy rate of 15% based on a percentage share of the liabilities outstanding. Therefore the Council has recognised a £0.560m provision in the accounts for these liabilities.

Land Charges - this provision has been created to cover refunds of land charges following the revocation of personal search fees on the local land charges register. The Council also has a Contingent liability see Note 46.

Contaminated Land - in accordance with the Environmental Protection Act 1990, a provision for the Council's obligations arising from decontamination costs of areas of contaminated land where there is a significant possibility of causing significant harm to human health.

Note 26: Other Long Term Liabilities

The Finance lease liability relates to the outstanding principal on the Council's finance leases. Further details are included in Note 35 Finance Leases.

2015/16 £000s		**2016/17 £000s**	***Note***
414	Finance lease liability	289	*35*
125,267	Net Pensions liability	117,899	*29*
125,681		**118,188**	

The finance lease liability has decreased as a result of repayments of the lease principal, there were no additions during the year.

The net pensions liability has decreased owing to greater returns on assets and investments. See Note 45 for further information.

Note 27: Grant Income - Credited to Taxation and Non Specific Grant Income

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

2015/16 £000s		**2016/17 £000s**
22,684	Revenue Support Grant	18,206
32,607	Council Tax Income	34,182
21,451	NNDR Safety-Net Grant	7
(5,724)	NNDR Redistribution	16,860
7,448	NNDR - Top-Up	7,510
1,767	New Homes Bonus Grant	2,339
1,187	Business Rates Relief	609
409	Council Tax Freeze Grant	-
57	Local Support Services Grant	-
3,275	Capital - Environment Agency	3,748
2,110	Capital - Local Transport Plan	2,230
741	Capital - Other DfE Grants	736
708	Capital - Homes & Communities Agency	407
172	Capital - Devolved Formula Capital Grant	54
34	Capital - Building Schools for the Future	557
2,225	Other Capital Grants & Contributions*	745
91,151	**Total**	**88,190**

Note 27: Grant Income - Credited to Services

2015/16 £000s		2016/17 £000s
49,338	Dedicated Schools Grant	47,946
47,480	Housing Benefit Subsidy	46,187
8,675	Public Health Grant	9,222
6,651	Better Care Fund	6,699
4,313	Pupil Premium	4,072
2,447	Other Grants	2,978
1,474	Other Department for Education Grants	1,741
-	Youth Employment Initiative (Department for Work & Pensions)	1,564
1,388	Education Funding Agency/ Skills Funding Agency	1,485
1,218	European Social Fund	419
1,000	Education Services Grant	882
899	Housing Benefit and Council Tax Benefit Administration	811
507	Independent Living Fund	641
454	Department for Work & Pensions	605
342	Department for Communities & Local Government - Troubled Families	551
314	Department of Health Grants	109
50	Environment Agency	70
38	Local Council Tax New Burdens	-
126,588	**Total**	**125,982**

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned if the conditions are not met. The balances at the year-end are as follows :-

Current Liabilities

Grant Receipts in Advance (Capital Grants)

2015/16 £000s		2016/17 £000s
1,776	Environment Agency	149
1,020	Local Transport Plan	725
896	Other Department for Education Grants	1,721
610	Building Schools for the Future	53
53	Department for Transport	53
1,585	Other Capital Grants & Contributions	1,941
5,940	**Total**	**4,642**

Grant Receipts in Advance (Revenue Grants)

2015/16 £000s		2016/17 £000s
376	Education Funding Agency/ Skills Funding Agency	79
178	Other Grants	302
43	Department for Communities & Local Government	-
597	**Total**	**381**

Long-Term Liabilities

Grant Receipts in Advance (Capital Grants)

2015/16 £000s		2016/17 £000s
-	Other Capital Grants & Contributions	597
1,500	Environment Agency	-
1,500	**Total**	**597**

Note 28: Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Notes 5 and 6 and are summarised below.

2015/16 £000s		2016/17 £000s	Note
	Unearmarked General Fund Balance		
4,753	General Fund Balance	4,526	1
4,753		**4,526**	
	Budget Support & Investment Reserves		
-	2017/18 MTFS Investment Reserve	4,662	2
-	Business Rates Risk Reserve	4,149	3
5,781	Budget Support Fund 2016/17 to 2018/19	2,605	4
-	Adult Social Care Reserves	2,293	5
-	Looked After Children Reserves	973	6
-	Children's Social Care & Early Intervention Reserves	545	7
5,781		**15,227**	
	School Balances		
2,711	Balances held by schools under a scheme of delegation	1,192	8
935	School Strategic Change & Ring Fenced Grants Reserves	1,097	9
270	Other Fund School Balances	150	10
3,916		**2,439**	
	Housing Revenue Account Balance		
-	HRA Balance	538	11
-		**538**	
	Earmarked Revenue Reserves		
5,875	Strategic One Off Costs	4,703	12
4,302	Insurance Fund	4,430	13
5,952	Strategic Change Ring Fenced Grants Reserves	3,578	14
3,779	Strategic Change Reserves	1,896	15
2,405	Public Health Grant Reserve	1,366	16
1,028	Strategic Risk Reserve	1,028	17
901	Capital Risk Strategy Reserve	901	18
804	Treasury Management Risk Reserve	795	19
520	Royal Navy Museum Reserve	461	20
578	Tees Education & Skills Reserve	430	21
425	Lotteries Reserve	418	22
500	Income Risk Reserve	400	23
500	Supporting Family Poverty	345	24
400	Regeneration Projects	324	25
2,920	Support for Local Council Tax Support Scheme	300	26
414	Education Commission Reserve	264	27
334	Trading Account Reserves	245	28
389	School Attainment Reserve	220	29
220	Better Care Fund Reserve	220	30
196	Environmental Enhancement Projects	148	31
84	Museums Acquisition	87	32
90	Funding for Modern Apprentices	78	33
750	Protection Costs Reserve	67	34
25	Environmental Apprenticeships Scheme	60	35
48	Members Ward Budget Reserve	55	36
38	Concessionary Fares	38	37
30	Community Centre Reserve	30	38
15	Works in Default Empty Homes	15	39
8	NDC Fund	8	40
123	Building / Development Control Income Shortfall	-	41
100	Pay Costs Reserve	-	42
49	Living Wage Reserve	-	43
5,370	Business Rates Risk Reserve	-	
720	Children's Social Care & Early Intervention Reserves	-	
39,892		**22,910**	
	Earmarked Capital Reserves		
6,196	Capital Funding Reserve	5,852	44
321	Capital Grants Unapplied	296	45
-	HRA Major Repairs Reserve	147	46
-	Capital Receipts Unapplied	-	47
6,517		**6,295**	
60,859	**Total Usable Reserves**	**51,935**	

Note 28: Usable Reserves

Part 2 - Safety Net Grant Reserves

21,451	Business Rates Safety Net Grant Reserve	957	**48**
21,451		**957**	

Notes to Useable Reserves

The Councils reserves have been established as part of the Medium Term Financial Strategy (MTFS) and are allocated to support the revenue budget over the next three years, or to manage financial risks. An annual review of reserves is undertaken and the next review is scheduled for September 2017. The following notes explain the purpose of individual reserves.

Unearmarked General Fund Balance

1 The General Fund Balance of £4.526m held at 31st March 2017 is held to meet unforeseen commitments not funded from Earmarked Reserves. Any use of this reserve will need to be repaid to ensure the Council can continue to manage unforeseen commitments.

Budget Support & Investment Reserves

2 This reserve will be used to fund the five year capital plan including works at the Borough Hall, Church Square, Seaton Waterfront and building condition issues.

3 This reserve has been established to address the financial impact of the Business rates being relocalised in April 2013 and the implementation of the 'safety net' arrangements. Under these arrangements the Council will only receive 'safety net' grant for shortfalls above £1.7m. Following the decision of the Valuation Office Agency to reduce the rateable value of the Hartlepool Nuclear Power Station, this reserve is committed to partly offset the income loss over the period 16/17 to 18/19.

4 This reserve has been established to support the budget between 2016/17 to 2018/19.

5 This is to fund increasing demographic and historic budget pressures within Adult Social Care. This reserve will provide support over the period of the MTFS as the department seeks to make budget savings by reducing demand.

6 This is to fund the increasing demand and costs of Looked After Children. This reserve will provide support over the period of the MTFS as the department seeks to make budget savings by reducing demand.

7 This reserve was created from underspends against previous years Early Intervention Grant to support longer term funding changes for Early Intervention Services and Children's Social Care. The reserve will be utilised over the period of the MTFS.

School Balances

8 Schools have utilised their reserves to assist with decreases in dedicated Schools Grant and to fund planned capital works. Further details are available from the Child & Adult Services Department. The net balance consists of individual school balances less loans to schools of £0.062m.

9 These risk reserves are held in trust for Schools to manage specific commitments and one-off risks.

10 School balances generated from other funding.

Housing Revenue Account Balance

11 This is a Ringfenced reserve arising from a surplus on the HRA, mainly as a result of temporary borrowing savings. It can be used to help manage future pressures such as government rents cuts, Right to Buy sales and rising repairs costs.

Earmarked Revenue Reserves

12 This reserve was created to cover one-off strategic financial issues including redundancy and early retirement costs over the period of the MTFS.

13 This reserve provides for all payments that fall within policy excesses or relate to self-insured risks. The reserve currently covers the estimated value of unpaid outstanding claims.

14 Strategic Change Ring Fenced Grants Reserve are grants received for specific commitments in 2016/17 or future years in accordance with grant conditions.

15 Strategic Change Reserves have been established to enable departments to meet one-off costs that will arise from strategic changes to improve services, or reduce costs, without affecting the level of services in the year.

Note 28: Usable Reserves

16 This reserve was created from an in-year underspend against the ring-fenced Public Health Grant. In accordance with the grant conditions a ring-fenced reserve has been created to support public health services in 2016/17.

17 This risk reserve is set aside to manage one-off risks in relation to Equal Pay/Equal Value claims.

18 This reserve was created to manage potential capital receipt risks, in relation to the Jacksons Landing project.

19 This reserve was created as part of the 2013/14 MTFS to manage the risk of interest rates increasing and to ensure permanent saving built into the MTFS can be achieved if interest rates increase. This was approved by Council 14th February, 2013.

20 This reserve was created to fund the contributions required to support the Hartlepool Maritime Experience and developments with the National Museum of the Royal Navy (NMRN).

21 This reserve was created from pooled resources from the local authorities of Hartlepool, Middlesbrough, Stockton and Redcar & Cleveland, to enable a collaborated approach to tackle the root cause of underperformance and deliver a first class education and skills system.

22 The Lotteries Reserve, which consists of the proceeds of the Civic Lottery and donations received, is an earmarked reserve and the investment income generated is used for grants and donations to local organisations.

23 This reserve was created as part of the 2013/14 MTFS approved by Council 4th February, 2013 and is earmarked to offset in year income shortfalls.

24 This reserve was created to Support Family Poverty over the period of the MTFS.

25 This reserve was created from one -off funding to support Regeneration Priorities.

26 This reserve was created to partly mitigate the impact of the change to the Council Tax Benefit regime and the

27 This reserve was created to identify and address key priorities to support sustainable educational improvement across the town.

28 This reserve is earmarked to manage future financial risks on Trading Operations.

29 This reserve was created towards improving School Attainment.

30 This reserve was created as a contingency to support the Adult Social Care budgets in future years arising from the impact of the Better Care Fund.

31 This reserve was created to fund Environmental Improvements & initiatives across the town.

32 The Museums Acquisition Reserve was set up from external donations for the acquisition of items for the Museum.

33 This amount was previously set to provide re-training of staff on the redeployment register. Council agreed on the 17th October, 2013 to use this reserve to provide Modern Apprenticeships. This amount will be used over the period of the MTFS.

34 Created to fund protection costs arising from implementation of changes to Terms and Conditions.

35 This reserve was created to fund costs over more than one financial year in relation to Apprentices.

36 This reserve is to be used by Members to support minor issues within their wards.

37 This reserve is to cover the tri-annual cost of replacing Concessionary Fare passes.

38 This reserve was created to retain community centres in 2015/16 to provide a longer lead time to develop alternative funding/operational arrangements.

39 This reserve has been created to provide a cash backed fund for the completion of housing works in default.

40 This reserve had been created to fund any outstanding expenditure on New Deals for Communities.

41 The level of income is being affected by the continued weakness in the economy and this reserve has been created to cover this shortfall in income in the short term.

42 This was created to fund the impact of a higher pay award than budgeted.

43 This reserve was created to fund the cost of introducing the Hartlepool Living Wage.

Earmarked Capital Reserves

44 The Capital Funding Reserve is earmarked to finance capital expenditure rephased to 2016/17.

45 These are capital grants that will be used to finance capital expenditure in future years.

46 This reserve is Ringfenced to the HRA and can only be used to fund major repairs or repayments of borrowing.

47 These resources were fully utilised in 15/16.

Safety Net Grant Reserves

48 This reserve was set up to reflect the timing difference between the Safety Net Grant in 2015/16 and Business Rates repayments being made in 2016/17.

Note 29: Unusable Reserves

The Unusable Reserves are shown below.

2015/16 £000s		2016/17 £000s	Table
54,217	Revaluation Reserve	55,507	1
197	Available for Sale Financial Instruments Reserve	197	2
138,613	Capital Adjustment Account	133,219	3
(125,267)	Pensions Reserve	(117,899)	4
366	Deferred Capital Receipts Reserve	366	5
(21,783)	Collection Fund Adjustment Account	(1,396)	6
(1,361)	Accumulated Absences Account	(1,475)	7
44,982		**68,519**	

Table 1 - Revaluation Reserve

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

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

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

2015/16 £000s			2016/17 £000s
44,350	**Balance at 1 April**		54,217
13,415	Upward revaluation of assets	9,972	
(1,372)	Downward revaluation of assets not charged to the Surplus/Deficit on the Provision of Services	(4,693)	
(271)	Impairment losses not charged to the Surplus/Deficit on the Provision of Services	-	
11,772	Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		5,279
(756)	Difference between fair value depreciation and historical cost depreciation	(955)	
(1,149)	Accumulated gains/(losses) on assets sold or scrapped	(3,034)	
(1,905)	Amount written off to the Capital Adjustment Account		(3,989)
54,217	**Balance at 31 March**		**55,507**

Table 2 -Available for Sale Financial Instruments Reserve

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

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

2015/16 £000s		2016/17 £000s
197	**Balance at 1 April**	197
-	Upward/(downward) revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	-
197	**Balance at 31 March**	**197**

Note 29: Unusable Reserves

Table 3 -Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April, 2007 the date that the Revaluation Reserve was created to hold such gains. Note 5 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2015/16 £000s			**2016/17 £000s**
135,758	**Balance at 1 April**		138,613
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(13,118)	- Charges for depreciation and impairment of non-current assets	(10,788)	
(2,210)	- Revaluation losses on Property, Plant and Equipment	(6,805)	
(1,639)	- Revenue expenditure funded from capital under statute	(1,767)	
(1,714)	- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(10,302)	
(18,681)			(29,662)
1,905	Adjusting amounts written out of the Revaluation Reserve	3,989	
(16,776)	Net written out amount of the cost of non-current assets consumed in the year		(25,673)
	Capital financing applied in the year:		
1,922	- Use of the Capital Receipts Reserve to finance new capital expenditure	312	
-	- Use of the Major Repairs Reserve to finance new capital expenditure	32	
-	- Use of the Capital Receipts Reserve to repay prudential borrowing	114	
9,629	- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	9,775	
4	- Application of grants to capital financing from the Capital Grants Unapplied Account	25	
4,457	- Statutory provision for the financing of capital investment charged against the General Fund	5,409	
2,303	- Direct revenue funding credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	2,335	
18,315			18,002
1,316	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	2,277	
138,613	**Balance at 31 March**		**133,219**

Note 29: Unusable Reserves

Table 4 - Pensions Reserve

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

2014/15 £000s		**2016/17 £000s**
(122,097)	**Balance at 1 April**	(125,267)
3,909	Remeasurement of defined liability on pensions assets and liabilities	14,887
(14,674)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(15,721)
7,595	Employer's pensions contributions and direct payments to pensioners payable in the year	8,202
(125,267)	**Balance at 31 March**	**(117,899)**

Table 5 - Deferred Capital Receipts Reserve

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

2015/16 £000s		**2016/17 £000s**
7	**Balance at 1 April**	366
-	Transfer to the Capital Receipts Reserve upon receipt of cash	-
359	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-
366	**Balance at 31 March**	**366**

Note 29: Unusable Reserves

Table 6 - Collection Fund Adjustment Account

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

2015/16 £000s		**2016/17 £000s**
2,512	**Balance at 1 April**	**(21,783)**
(24,295)	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	**20,387**
(21,783)	**Balance at 31 March**	**(1,396)**

Table 7 - Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March, 2017. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2015/16 £000s		**2016/17 £000s**
(1,415)	**Balance at 1 April**	(1,361)
1,415	Settlement or cancellation of accrual made at the end of the preceding year	1,361
1,361	Amounts accrued at the end of the current year	(1,475)
54	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**(114)**
(1,361)	**Balance at 31 March**	**(1,475)**

Note 30: Related Party Transactions

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

Central Government

Central government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 7 on reporting for resource allocation decisions. Grant receipts outstanding at 31 March, 2016 are shown in Note 27.

Members

Members of the Council have direct control over the Council's Financial and Operating Policies. The total of Members' allowances paid in 2016/17 is shown in Note 11.

The Council pays grants and/or makes contractual payments to voluntary organisations where an individual Councillor(s) may sit on the voluntary organisation's management board e.g. Hartlepool Carers and Hartlepool Voluntary Development Agency. These interests are recorded in the declaration of interests completed by individual Members. Details of these interests are recorded in the Register of Members' Interest, open to public inspection at the Civic Centre during office hours.

These payments are either funded from the Council's own resources, or specific grants secured by the Council. In many cases funding is allocated by officers under delegated budget management responsibility. Where the final funding decision is made by Councillors, which would either be individual policy committees or Council, this decision would be made on the basis of an officer report at a formal Committee / Council meeting. These reports, meetings and minutes are open to the public.

Officers

Members of the Corporate Management Team are required to provide an annual declaration of interest and to keep this under review during the year. All declarations have been reviewed. Only one declaration requires disclosing. The Chief Solicitor is a director of the Cleveland Fire Brigade Risk Management Services Community Interest Company. This is a non remunerated position.

Note 30: Related Party Transactions

Other Public Bodies (subject to common control by central government)

The Council provides various support services, predominantly in relation to financial and legal services, to Cleveland Fire Authority for which it received income of £0.215m (£0.233m in 2015/16). In particular, the Council's Chief Solicitor holds the position of Legal Advisor and the Director of Finance & Policy holds the position of Treasurer.

The Council continues to provide a range of support services to Thirteen Group (formerly Housing Hartlepool) such as Building Cleaning. The income from these services amounted to £0.319m (£0.370m in 2015/16) which represented the cost of the service provided.

The Council receives income from 'Right to Buy' receipts in relation to the sale of former council dwellings under the terms of the Large Scale Voluntary Transfer (LSVT) of its council housing stock to Thirteen Group in 2004. This income amounted to £0.161m (£0.203m in 2015/16).

The Council provides a range of Support Services to Hartlepool Academies, including Property Services, Building Cleaning, School Catering and Payroll. The income from the services amounted to £2.619m, (£3.100m in 2015/16).

Other

The Council holds minority shares in Durham Tees Valley Airport Ltd and SITA Tees Valley Ltd.

The value of shares held by the Council in Durham Tees Valley Airport Limited (formerly Teesside International Airport) is nil based on a shareholding of 1.08%. The value has been determined with reference to the net worth of the company, which is negative as per their latest accounts for the financial year ending 31 March, 2016. The shareholding was valued at nil in the previous financial year.

Issues of note include a loss on the Profit and Loss Account of £2.589m (previous year loss of £1.262m) and a net Liability position of £7.057m (previous year net liability position of £4.519m). Further information and copies of their accounts are available from their Registered Office – Liverpool John Lennon Airport, Liverpool, L24 1YD.

In addition, the Council holds shares in SUEZ Recycling and Recovery Tees Valley Limited (Formerly SITA Tees Valley Limited, and Cleveland Waste Management) with a value of £0.197m, equating to 3.3% of a £5.964m 0% redeemable preference shareholding in the company. SUEZ Recycling and Recovery Tees Valley Limited have produced accounts for the financial year to 31 December, 2015, that includes a profit on the Profit and Loss Account of £1.821m (previous year profit of £4.407m) and a net asset position of £48.288m (previous year £44.907m). Further information on their accounts is available from the Registered Office, SITA House, Grenfell Road, Maidenhead, Berkshire, SL6 1ES. The partner of one of our members is a Director of SITA, this has been properly disclosed in the Register of Member interests.

The Council has not produced group accounts on the grounds of materiality.

Note 31: Trading Operations

Following the abolition of Compulsory Competitive Tendering, the Council is no longer required to maintain statutory DSO trading accounts. The Council previously determined to maintain separate trading accounts for these operations. The (surplus)/deficit of each trading account is contained within the Regeneration and Neighbourhood Services departments net cost of services and totals £0.518m surplus in 2016/17 (£0.142m surplus in 2015/16).

2015/16 (Surplus) / Deficit	**Internal Trading Operations**	**2016/17** Expenditure	Income	(Surplus) / Deficit
£000s		**£000s**	**£000s**	**£000s**
23	Catering	225	(199)	26
(74)	Building Maintenance	4,671	(4,903)	(232)
(141)	Highways Works	1,963	(1,976)	(13)
37	Fleet & Garage	3,168	(3,347)	(179)
(9)	Passenger Transport	996	(981)	15
(14)	Building Cleaning	2,316	(2,320)	(4)
(14)	School Catering	3,537	(3,694)	(157)
0	Community Housing	-	-	-
50	Garden Centre	160	(134)	26
(142)		**17,036**	**(17,554)**	**(518)**

Catering - provision of catering services at Council venues, including the Inspirations Coffee House. A number of venues have closed in 2016/17

Building Maintenance - repairs and maintenance to all Council buildings. Capital works and external work, including school works, are subject to competitive tendering. The surplus reported is owing to additional work carried out in 2016/17 on major capital schemes.

Highways Works - works to roads, street lighting and gullies within the Borough.

Fleet & Garage - provides all vehicles for the provision of Council Services e.g. Refuse Vehicles and undertakes external work in relation to MOT's, servicing and repairs for members of the public and businesses in the area. The surplus generated represents a temporary saving on borrowing costs following a change in policy to keep vehicles for longer periods. The recurring saving resulting from increasing the asset lives has been factored into future charges to clients.

Passenger Transport - provides transport services to Schools, social care clients and external customers.

Building Cleaning - cleaning of all Council buildings. Some external work which was subject to competitive tendering or in the case of Schools Buy Back Arrangements.

School Catering - provision of school meals to schools within the Borough. This is subject to a buy back arrangement.

Community Housing - relates to newly built community housing and empty properties purchased by the Council and brought back into use. This was previously included in the above note as a type of 'General Fund' trading activity. From 1 April the Council was required to reopen its Housing Revenue Account (HRA) which includes a full breakdown of Income and Expenditure as a seperate memorandum statement in Section 3.

Garden Centre - The Garden Centre was opened in 2014/15 as a Trading Activity. The site was previously a nursery used by the in-house grounds maintenance service and this has been expanded to form a new retail facility.

The above figures reflect the actual cost of running the services which are used as the basis for charges to service users.

Note 32: External Audit Costs

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

2015/16 £000s		**2016/17 £000s**
109	Fees payable in respect of external audit services carried out by the appointed auditor for the year	109
-	Rebate on previous years Audit Fee	
15	Fees payable for the certification of grant claims and returns for the year	17
124		126

Note 33: Dedicated Schools Grant

The Council's expenditure on schools is primarily funded by grant monies provided by the Department for Education (EFA), the Dedicated Schools Grant (DSG). The EFA recouped the funding for all existing and new academies in the Borough. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School and Early Years Finance (England) Regulations 2017. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2016/17 are as follows: -

	Central Expenditure £000s	**Individual Schools Budget £000s**	**Total £000s**
Final DSG for 2016/17 before Academy recoupment			76,420
Academy figure recouped for 2016/17			28,319
Total DSG after academy recoupment for 2016/17			48,101
Plus: Brought Forward from 2015/16			956
Less: Carry forward to 2017/18 agreed in advance			-
Agreed Initial Budget Distribution in 2016/17	13,835	35,222	49,057
In Year Adjustments	(5,798)	5,643	(155)
Final Budget Distribution for 2016/17	8,037	40,865	48,902
Less: Actual Central Expenditure	(7,278)		(7,278)
Less Actual Individual Schools Budget Deployed to Schools		(40,634)	(40,634)
Plus Local authority contribution for 2016/17	-	-	-
Carried forward to 2017/18	**759**	**231**	**990**

Note 34: Operating Leases

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

Council as lessee

2015/16 £000s	Future minimum lease payments due	2016/17 £000s
248	Not later than one year	253
511	Later than one year & not later than five years	441
196	Later than five years	135
955		**829**

Council as lessor

2015/16 £000s	Future minimum lease payments receivable	2016/17 £000s
390	Not later than one year	435
1,062	Later than one year & not later than five years	1,014
876	Later than five years	907
2,328		**2,356**

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

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

The Council has sub-let some of the office accommodation held under these operating leases. At 31 March, 2017 the minimum payments expected to be received under non-cancellable sub-leases was £0.030m (£0.015m as at 31 March, 2016). Where appropriate the value of these leases are shown in Note 16.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

2015/16 £000s		2016/17 £000s
	Payments recognised as an expense	
444	Minimum lease payments	253
(145)	Sub-lease payments	(159)
299	**Total**	**94**

Note 35: Finance Leases

The Council has acquired its IT and telecommunications equipment under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

Council as lessee

2015/16 £000s		**2016/17 £000s**
	Value of Assets held under Finance Leases	
528	Vehicles, Plant & Equipment	472
528	**Total**	**472**

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest and finance costs that will be payable in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:-

2015/16 £000s		**2016/17 £000s**
	Future minimum lease payments due	
120	Current	125
414	Non-current	289
74	Finance costs payable in the future	48
608	**Total minimum lease payments**	**462**

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

2015/16			**2016/17**	
Minimum Lease Payments £000s	Finance Lease Liabilities £000s		**Minimum Lease Payments £000s**	**Finance Lease Liabilities £000s**
		Payable:		
146	120	Not later than one year	120	125
462	414	Later than one year & not later than five years	414	289
608	534	**Total**	**534**	**414**

Note 36: Capital Expenditure and Financing

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

2015/16 £000s		**2016/17 £000s**
94,427	**Brought Forward Opening Capital Financing Requirement**	97,600
	Capital investment	
19,579	Property, Plant and Equipment	18,184
23	Investment Properties	42
226	Heritage Assets	-
1,639	Revenue Expenditure Funded from Capital under Statute	1,768
21	Long Term Debtors	1,864
	Sources of Finance	
(1,922)	Capital receipts	(312)
-	Application of Capital Receipts to Repay Borrowing	(114)
-	Major Repairs Reserve	(32)
(9,633)	Government Grants and Other Contributions	(9,801)
	Sums set aside from revenue:	
(2,303)	Direct Revenue Contributions	(2,335)
(4,457)	Minimum Revenue Position (MRP)	(5,409)
97,600	**Closing Capital Financing Requirement**	**101,455**
	Explanation of movements in year	
-	Application of Capital Receipts to Repay Borrowing	(114)
353	Assets acquired under Finance Lease	-
9	Increase in borrowing supported by government financial assistance	-
7,268	Increase in borrowing unsupported by government financial assistance	9,378
(4,457)	Minimum Revenue Provision (MRP)	(5,409)
3,173	**Increase/(decrease) in Capital Financing Requirement**	**3,855**

Note 37: Financial Instruments

Categories of Financial Instruments

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

31 March 2016 Long Term £000s	31 March 2016 Current £000s		31 March 2017 Long Term £000s	31 March 2017 Current £000s
		Investments		
-	54,972	Loans and receivables - Principal Amount	-	40,067
-	6,166	Liquidity Accounts included in Cash Equivalents	-	6,506
-	61,138	Loans and receivables at Amortised Cost	-	46,573
197	-	Available-for-sale financial assets *	197	-
197	61,138	**Total Investments**	**197**	**46,573**

* Includes Tees Valley Airport Shares which are valued at zero in 2016/17 (zero in 2015/16).

The carrying value of the Council's investment with Durham Tees Valley Airport (Note 18) has been determined from the Council's 1.08% shareholding and the net worth of the company as per the latest audited accounts.

31 March 2016 Long Term £000s	31 March 2016 Current £000s		31 March 2017 Long Term £000s	31 March 2017 Current £000s
		Debtors		
-	7,260	Loans and receivables (Trade Debtors and General and Other Debtors)	-	7,632
-	**7,260**	**Total debtors**	**-**	**7,632**
		Borrowings		
83,497	4,768	Financial liabilities at amortised cost **	80,832	4,815
83,497	**4,768**	**Total Borrowings**	**80,832**	**4,815**

**As required accrued interest relating to long term borrowing is disclosed within the short term borrowing figure on the balance sheet.

31 March 2016 Long Term £000s	31 March 2016 Current £000s		31 March 2017 Long Term £000s	31 March 2017 Current £000s
		Other Long Term Liabilities		
414		Finance lease liabilities	288	-
414	**-**	**Total Other Long Term Liabilities**	**288**	**-**
		Creditors		
	6,869	Financial liabilities carried at contract amount (Trade Creditors and General and Other Creditors)	-	8,769
-	**6,869**	**Total Creditors**	**-**	**8,769**

Note 37: Financial Instruments

Income, Expense, Gains and Losses

This note comprises details of income, expenses and revaluation losses that relate specifically to financial instruments. Interest expense, interest income and gains or losses on revaluations are included along with other non financial instrument related income and expenditure within the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. During 2016/17 there were no reclassifications or derocognitions of Financial Instruments.

	2016/17				
	Financial Liabilities measured at amortised cost	**Finance Lease Payments**	**Financial Assets: Loans and receivables**	**Financial Assets: Available for sale**	**Total**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Interest expense	3,004	27	-	-	**3,031**
Interest income	-	-	(373)	-	**(373)**
(Gain) / Loss on revaluation	-	-	-	-	**-**
Net (gain)/loss for the year	**3,004**	**27**	**(373)**	**-**	**2,658**

	2015/16				
	Financial Liabilities measured at amortised cost	**Finance Lease Payments**	**Financial Assets: Loans and receivables**	**Financial Assets: Available for sale**	**Total**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Interest expense	3,014	12	-	-	**3,026**
Interest income	**-**	-	(354)	-	**(354)**
(Gain) / Loss on revaluation	**-**	-	-	-	**-**
Net (gain)/loss for the year	**3,014**	**12**	**(354)**	**-**	**2,672**

Note 37: Financial Instruments

The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

Except for financial assets carried at fair value, all other financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. However disclosure of their fair value is required and is set out below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Input to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the "fair value hierarchy," as follows:
- Level 1 - Unadjusted quoted market prices for identical assets or liabilities;
- Level 2 - Inputs other than quoted market prices that are either directly or indirectly observable;
- Level 3 - Unobservable inputs.

The fair value of the below assets and liabilities has been assessed by calculating the present value of the cash flows that will take place over the remaining life of the instruments (Level 2 in the fair value hierarchy), using the following assumptions:
- For loans from the PWLB payable, premature repayment rates from the PWLB have been applied to provide the fair value under the PWLB debt redemption procedures;
- For non-PWLB loans payable, premature market rates have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

31 March 2016 Carrying Amount £000s	31 March 2016 Fair Value £000s		**31 March 2017 Carrying Amount £000s**	**31 March 2017 Fair Value £000s**
		Financial Liabilities		
45,388	76,530	Market Loans	45,377	92,298
41,314	51,024	Public Works Loan Board	38,707	50,427
1,563	1,549	Non-Market Loans*	1,563	1,564
6,869	6,869	Trade Creditors and General and Other Creditors	8,769	8,769
414	414	Long Term Finance Lease Liability	288	288
95,548	136,386		94,704	153,346

31 March 2016 Carrying Amount £000s	31 March 2016 Fair Value £000s		**31 March 2017 Carrying Amount £000s**	**31 March 2017 Fair Value £000s**
		Financial Assets		
61,138	61,138	Money market loans < 1 year	46,573	46,573
7,260	7,260	Short term debtors	7,632	7,632
68,398	68,398		54,205	54,205

* The non-market loan relates to a 0% loan from Tees Valley Unlimited to purchase Jackson's Landing. It is envisaged that this loan will be repaid from the sale proceeds from the redevelopment of this site. To manage the potential risk that this redevelopment is not complete before the loan repayment date, the Council has earmarked one-off resources of £1.293m at 31 March, 2016.

Note 37: Financial Instruments

The fair value of Public Works Loan Board (PWLB) loans of £50.427m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value is calculated by applying the PWLB redemption interest rates, which are lower than the borrowing interest rates. The fair value therefore measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates, taken to be these lower redemption interest rates. However, it should be noted that the borrowing interest rates on the debt drawn equated to the prevailing borrowing, as opposed to redemption rates at the Balance Sheet date.

However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the Council will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £38.706m would be valued at £44.686m. But, if the Council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans would be the outstanding loan debt and accrued interest of £38.706m plus a penalty charge of £11.721m totalling £50.427m.

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional loss (based on economic conditions at 31 March, 2017) arising from a commitment to pay interest to lenders above current market rates.

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

The Fair Values of Financial Assets and Financial Liabilities Measured at Fair Value

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

Recurring fair value mesurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	Fair Value 31 March 2016 £000s	Fair Value 31 March 2017 £000s
Available for sale - Equity shareholdings in Durham Tees Valley Ltd	Level 3	Based on company's net worth (see below)	-	-
Available for sale - Equity shareholdings in SITA Tees Valley Ltd	Level 3	Face value (see below)	197	197
			197	197

Equity shareholdings in Durham Tees Valley Airport Ltd

The Authority's shareholding in Durham Tees Valley Airport Ltd - the shares in this company are not traded in an active market and the fair value has been based on valuation techniques that are not based on observable current market transactions or available market data. The valuation has been made based on an analysis of the assets and liabilities in the company's latest audited accounts, as the company has a negative net worth as a result of an operating loss incurred during recent financial years, the year end fair value is deemed to be zero.

Equity shareholdings in SITA Tees Valley Ltd

The Authority's shareholding in SITA Tees Valley Ltd - the shares in this company are not traded in an active market and the fair value has been based on valuation techniques that are not based on observable current market transactions or available market data. 196,845 £1 preference shares are owned by Hartlepool Council, as such the Council is not entitled to the retained profits of the company. The face value of the shares is deemed to be the fair value of the shareholding.

Changes in Valaution Technique

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

Note 38: Nature and Extent of Risks Arising from Financial Instruments

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

- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.
- credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- re-financing risk - the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and Investment Guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice,
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution,
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - the Council's overall borrowing;
  - its maximum and minimum exposures to the maturity structure of its debt;
  - its maximum and minimum exposures to fixed and variable rates;
  - its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 18 February, 2016 and is available on the Council website. The key issues within the strategy were:

- the Authorised Limit for the 2016/17 was set at £131m (£125m in 2015/16). This is the maximum limit of external borrowings or other long term liabilities;
- The Operational Boundary was expected to be £121m (£115m in 2015/16). This is the expected level of debt and other long term liabilities during the year
- the maximum amounts of gross fixed interest rate exposure for borrowing and investments was set at £121m and £70m respectively (£115m and £70m respectively in 2015/16).
- the maximum amount of gross variable interest rate exposure for borrowing and investments was set at £91m and £35m respectively (£85m and £35m respectively in 2015/16).

These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Councillors. The Council has now extended the role of the Audit Committee to include the scrutiny of treasury activities.

Note 38: Nature and Extent of Risks Arising from Financial Instruments

Credit Risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Ratings Services. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. The Council now operates a very restricted counterparty list which is actively managed to reflect continued developments in the banking and financial sector.

The Investment Strategy for 2016/17 was approved by Full Council on the 18 February, 2016 and is available on the Council's website.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £11.502m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, however there was no evidence at the 31 March, 2017 that this was likely to crystallise.

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The following analysis summarises the Council's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability over the last three financial years, adjusted to reflect current market conditions.

Estimated maximum exposure at 31 March 2016		**Amount at 31 March 2017**	**Historical experience of default**	**Adjustment for market conditions at 31 March 2017**	**Estimated maximum exposure to default at 31 March 2017**
£000s		**£000s**	%	%	**£000s**
1,405	Trade Debtors and General and Other Debtors	7,632	16.09%	0.00%	1,228
1,405					**1,228**

The historical experience of default is calculated with reference to the outstanding debt balance, rather than as a percentage of income generated in the year.

Note 38: Nature and Extent of Risks Arising from Financial Instruments

The Council does not generally allow credit for customers, such that £1.78m of the £7.632m balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

31 March 2016 £000s		**31 March 2017 £000s**
600	Less than three months	805
112	Three to six months	115
89	Six months to one year	231
598	More than one year	629
1,399		**1,780**

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happens, the Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the maturity structure of its fixed rate borrowing during specified periods. The limits have been set to enable maximum flexibility as experience has shown it is possible to move from 100% long term borrowing to 100% short term borrowing and then back to 100% long term borrowing over a period of two years. Therefore the lower limit was set to nil and the upper limit to £121m, equal to the operational boundary.

The maturity structure of financial liabilities (borrowing and finance leases) at the year end was as follows:

31 March 2016 £000s		**31 March 2017 £000s**
2,720	Less than one year	4,353
12,954	Between one and five years	11,455
5,463	Between five and ten years	3,341
3,597	Between ten and fifteen years	3,555
3,406	Between fifteen and twenty years	3,101
1,940	Between twenty and twenty-five years	1,935
2,054	Between twenty-five and thirty years	2,129
2,458	Between thirty and thirty-five years	2,548
5,844	Between thirty-five and forty years	6,005
2,460	Between forty and forty-five years	1,955
45,298	More than forty-five years	45,095
88,194		**85,472**

All trade and other payables are due to be paid in less than one year.

Market Risk

<u>Interest Rate Risk</u>

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

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall.

Note 38: Nature and Extent of Risks Arising from Financial Instruments

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

A large proportion of the Council's long term borrowing (£45m) is held in the form of LOBO (Lender Option Borrower Option) loans from the money markets. These loans are subject to periodic "calls" from the lender. Where the lender decides to "call" a loan, they increase the interest rate of the loan and the Council then has the opportunity to accept the increased rate or to repay the loan. In accordance with the Code of Practice, the Council's LOBOs are included in the maturity analysis according to the end date of the loan rather than when the next call date falls.

The Council's view is that the risk of these loans being called is very low and there is therefore minimum refinancing risk owing to low current market rates. The Council manages this risk through the Treasury Management Strategy.

The view of the Chief Finance Officer is that limits on fixed and variable rates of borrowings are unhelpful and could lead to unnecessary higher cost of borrowing. The intention is to move to fixed rate borrowing when rates are at an appropriate level and may require the use of variable rate borrowing in the interim. The Council has maximised the use of its balances to defer borrowing and avoid the risk of default on investments.

According to this assessment strategy, at 31 March, 2017, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000s
Increase in interest payable on borrowings	856
Increase in interest receivable on variable rate investments	(466)
Impact on Surplus or Deficit on the Provision of Services	**390**

	£000s
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Comprehensive Income and Expenditure Statement)	**(30,489)**

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

The Council, excluding the pension fund, does not invest in equity shares but does have shareholdings in Durham Tees Valley Airport Limited and SITA Tees Valley Limited. These shares are all classified as Available for Sale, meaning that all movements in price will impact on gains and losses recognised in the Available for Sale Reserve.

Foreign Exchange Risk

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

Collateral Risk

During the reporting period the Council held no collateral as security and is therefore not exposed to losses arising from this risk.

Note 39: Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

2015/16 £000s		**2016/17 £000s**
315	Interest Received	373
(2,978)	Interest Paid	(3,022)

Note 40: Cash Flow Statement - Adjustments for non-cash movements

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2015/16 £000s		**2016/17 £000s**
10,256	Depreciation	10,596
5,072	Impairment and Downward Valuations	6,997
(1,316)	Downward / (Upward) Valuation of Investment Property	(2,277)
1,628	Increase / (Decrease) in Provisions	(1,016)
35,465	Increase / (Decrease) in Creditors	(35,945)
(20,544)	(Increase) / Decrease in Debtors	20,560
265	(Increase) / Decrease in Inventories	179
7,079	Pension Liability	7,519
1,714	Carrying amount of Non-Current Assets Sold	10,302
(63)	Other non-cash movements	-
39,556		**16,915**

Note 41: Cash Flow Statement - Adjustments for Investing and Financing Activities

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2015/16 £000s		**2016/17 £000s**
(9,402)	Capital Grants credited to surplus or deficit on the provision of services	(9,777)
(1,200)	Proceeds from the Sale of Property, Plant and Equipment and Investment Property	(426)
(10,602)		**(10,203)**

Note 42: Cash Flow Statement - Investing Activities

2015/16 £000s		**2016/17 £000s**
(19,188)	Purchase of Property, Plant and Equipment and Investment Property	(17,788)
-	Purchase of Short-term and Long-term Investments	-
(31)	Other Payments for Investing Activities	(1,949)
841	Proceeds from the sale of property, plant and equipment, investment property	426
390	Proceeds from the sale of Short-term and Long-term Investments	14,904
11,319	Other Receipts from Investing Activities	7,789
(6,669)	**Net cash flows from investing activities**	**3,382**

Note 43: Cash Flow Statement - Financing Activities

2015/16 £000s		**2016/17 £000s**
6,080	Cash receipts of short-term and long-term borrowing	-
(22,138)	Council Tax and NNDR adjustment	19,212
(52)	Cash payments for the reduction of the outstanding liabilities relating to finance leases	(119)
(2,318)	Repayments of short and long-term borrowing	(2,602)
(18,428)	**Net cash flows from financing activities**	**16,491**

Note 44: Pensions Schemes Accounted for as Defined Contribution Schemes

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

This is a defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating employers' contribution rate paid by local authorities. The last valuation was completed as at 31 March, 2012. A valuation assessing the scheme as at 31st March, 2016 is due to reach conclusion by March 2018.

The scheme has in excess of 3,700 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the Teachers' Pension Scheme during the year ending 31 March 2017, the Council's own contributions equate to approximately 0.05%.

The Council's contribution to the Teacher's Pension Scheme in 2016/17 amounted to £2.945m (£2.859m in 2015/16) which represented 16.48% of pensionable pay. There were no contributions remaining payable at the year-end. The contributions due to be paid in the next financial year are estimated to be £2.974m.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are fully accrued in the Pensions Liability relating to the Local Government Pension Scheme.

The Council is not liable to the scheme for any other entities obligations under the plan.

Public Health staff employed by the Council are members of the NHS Pensions Scheme, administered by the NHS Business Services Authority. The Scheme provides employees with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

This is a defined benefit scheme. Although the scheme is unfunded, it is subject to a full actuarial valuation. The latest valuation was undertaken as at 31 March, 2012 and determined current contribution rates for employers and scheme members. The scheme has in excess of 9,000 employing bodies and it is not possible for the Council to identify a share of underlying liabilities in the scheme attributable to its own employees. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the NHS Pension Scheme during the year ending 31 March, 2017 the Council's own contributions equate to approximately 0.0004%.

The Council's contribution to the NHS Pension Scheme in 2016/17 amounted to £0.046m (£0.052m in 2015/2016) which represented 14.3% of pensionable pay. There were no contributions remaining payable at the year-end. The contributions due to be paid in the next financial year are estimated to be £0.046m. From 1 April 2017 the Council's contribution will be 14.38% following the introduction of a 0.08% administration levy.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the NHS scheme. These benefits are fully accrued in the Pensions Liability relating to the Local Government Pension Scheme.

Note 45: Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Council participates in The Local Government Pension Scheme, administered locally by Middlesbrough Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The Pension Scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of the Pensions and Investments Panel. This panel has plenary powers to make decisions without reference to Middlesbrough Council and acts in a similar manner to the Board of Trustees of a private sector pension fund. Policy is determined in accordance with the Pension Fund Regulations.

The Panel consists of representatives from the councils in the former Cleveland County area as well as representatives from the Trades Unions.

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

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

Transactions Relating to Post-employment Benefits

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

	Local Government Pension Scheme		Discretionary Benefit Arrangements		Total	
	2015/16 £000s	**2016/17 £000s**	2015/16 £000s	**2016/17 £000s**	2015/16 £000s	**2016/17 £000s**
Comprehensive Income and Expenditure Statement						
Cost of Services:						
- Current Service cost	10,696	10,868	-	-	10,696	10,868
- Past Service Costs (inc. curtailments)	192	732	-	-	192	732
Financing and Investment Income and Expenditure:						
- Net Interest Expense	3,365	3,705	421	416	3,786	4,121
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	14,253	15,305	421	416	14,674	15,721
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:						
Remeasurement of the net defined benefit liability:						
- Return on plan assets (excluding amount in net interest expense)	19,605	(69,112)	-	-	19,605	(69,112)
- Actuarial (gains) and losses arising from changes in financial assumptions	(18,858)	103,064	(222)	1,113	(19,080)	104,177
- Actuarial (gains) and losses arising from changes in demographic assumptions	-	(10,997)	-	(335)	-	(11,332)
- Actuarial (gains) and losses owing to liability experience	(4,202)	(38,519)	(232)	(101)	(4,434)	(38,620)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	10,798	**(259)**	(33)	**1,093**	10,765	**834**

Note 45: Defined Benefit Pension Schemes

Movement in Reserves Statement

Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	14,253	15,305	421	416	14,674	15,721
Actual amount charged against the General Fund Balance for pensions in the year:						
- Employers' contribution payable to scheme	**6,679**	**7,312**			6,679	**7,312**
- Retirement Benefits payable to pensioners			**916**	**890**	916	**890**

Pension Assets and Liabilities Recognised in the Balance Sheet

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

	Local Government Pension Scheme		Discretionary Benefit Arrangements		Total	
	2015/16 £000s	**2016/17 £000s**	2015/16 £000s	**2016/17 £000s**	2015/16 £000s	**2016/17 £000s**
Fair value of plan assets	366,979	443,890	-		366,979	443,890
Present value of the defined benefit obligation	(479,575)	(548,915)	(12,671)	(12,874)	(492,246)	(561,789)
Net liability arising from defined benefit obligation	(112,596)	**(105,025)**	(12,671)	**(12,874)**	(125,267)	**(117,899)**

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

	Local Government Pension Scheme		Discretionary Benefit Arrangements		Total	
	2015/16 £000s	**2016/17 £000s**	2015/16 £000s	**2016/17 £000s**	2015/16 £000s	**2016/17 £000s**
Opening fair value of assets	(380,002)	(366,979)	-	-	(380,002)	(366,979)
Interest Income on assets	(12,076)	(12,403)	-	-	(12,076)	(12,403)
Remeasurement gains/(losses):					-	-
- Return on plan assets (excl amount in net interest)	19,605	(69,112)	-	-	19,605	(69,112)
Contributions by the employer	(6,679)	(7,312)	(916)	(890)	(7,595)	(8,202)
Contributions by participants	(2,936)	(2,943)	-	-	(2,936)	(2,943)
Net benefits paid out	15,109	14,859	916	890	16,025	15,749
Closing fair value of assets	(366,979)	**(443,890)**	-	**-**	(366,979)	**(443,890)**

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

	Local Government Pension Scheme		Discretionary Benefit Arrangements		Total	
	2015/16 £000s	**2016/17 £000s**	2015/16 £000s	**2016/17 £000s**	2015/16 £000s	**2016/17 £000s**
Opening balance at 1 April	(488,479)	(479,575)	(13,620)	(12,671)	(502,099)	(492,246)
Current Service Cost	(10,696)	(10,868)	-		(10,696)	(10,868)
Interest Cost	(15,441)	(16,108)	(421)	(416)	(15,862)	(16,524)
Contributions from scheme participants	(2,936)	(2,943)	-		(2,936)	(2,943)
Remeasurement gains/(losses):						
- Actuarial gains and (losses) on liabilities - financial assumptions	18,858	(103,064)	222	(1,113)	19,080	(104,177)
- Actuarial gains and (losses) on liabilities - demographic assumptions	-	10,997	-	335	-	11,332
- Actuarial gains and (losses) on liabilities - experience	4,202	38,519	232	101	4,434	38,620
Past Service Costs (inc. curtailments)	(192)	(732)	-	-	(192)	(732)
Benefits paid	15,109	14,859	916	890	16,025	15,749
Closing present value of assets	(479,575)	**(548,915)**	(12,671)	**(12,874)**	(492,246)	**(561,789)**

Note 45: Defined Benefit Pension Schemes

Local Government Pension Scheme Assets

The Local Government Pension Scheme's assets comprised:

	2015/16 £'000	Quoted 2016/17 £'000	Unquoted 2016/17 £'000	**2016/17 £000s**
Equity investments	311,565	355,112	0	355,112
Property	25,688	3,107	27,521	30,628
Government Bonds	5,138	888	-	888
Corporate Bonds	5,872	888	-	888
Cash	18,716	49,715		49,715
Other Investments	-	4,883	1,776	6,659
	366,979	414,593	29,297	**443,890**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries, estimates for the Council Fund being based on the latest full valuation of the scheme as at 31 March, 2016.

Principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2015/16	**2016/17**	2015/16	**2016/17**
Long-term expected rate of return on assets in the scheme:				
Equities	3.4%	**2.5%**	-	
Property	3.4%	**2.5%**	-	
Government Bonds	3.4%	**2.5%**	-	
Corporate Bonds	3.4%	**2.5%**	-	
Cash	3.4%	**2.5%**	-	
Other	3.4%	**2.5%**	-	
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	23.1	**22.8**	23.1	**22.8**
Women	25.6	**24.9**	25.6	**24.9**
Longevity at 65 for future pensioners:				
Men	25.3	**25**	-	
Women	28	**27.2**	-	
Other assumptions:				
Rate of inflation - RPI	2.9%	**3.1%**	2.9%	**3.1%**
Rate of inflation - CPI	1.8%	**2.0%**	1.8%	**2.0%**
Rate of general increase in salaries	3.3%	**3.0%**	-	
Rate of increase in pensions - deferred and pensions in payment	1.8%	**2.0%**	1.8%	**2.0%**
Rate for discounting scheme liabilities	3.4%	**2.5%**	3.4%	**2.5%**

Note 45: Defined Benefit Pension Schemes

Sensitivity Analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table on the previous page.

The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant.

The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

LGPS Funded Benefits Only	Impact on Defined Benefit Obligation in the Scheme	
	Increase in Assumption £000s	Decrease in Assumption £000s
Adjustment to Discount rate (+/- 0.1%)	9,733	9,909
Adjustment to Salary increase rate (+/- 0.1%)	2,197	2,176
Adjustment to Pension increase rate (+/- 0.1%)	7,693	7,577
Adjustment to Longevity (decrease/increase 1 year)	16,555	16,442

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The current funding level of the scheme is 100%. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March, 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March, 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipates to pay £8.167m contributions to the scheme in 2017/18.

The weighted average duration of the defined benefit obligation for scheme members is 17.9 years in 2016/17 (18.9 years in 2015/16).

Note 46: Contingent Liabilities

These refer to either: a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control, or; a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

In 2016/17 the contingent liabilities are as follows:

- In 1989 the Council gave a loan guarantee of £3m to North Housing Association (now Home Housing Association) for sums borrowed on the money markets that would come into operation should the housing association default on the loan terms. Provision is included in the agreement for any such payments to be secured on North Housing Association property. It is anticipated that this guarantee will exist until the loan is repaid in 2049.

- A guarantee given to the Teesside Pension Scheme for the staff transferred to Housing Hartlepool in 2004 in the event that Housing Hartlepool had financial difficulties. This liability reduces each year.

- The Council is responsible for the Claxton Site which is a closed landfill. There is a possible obligation arising relating to de-contamination of the site; it is not possible at this stage to quantify the potential liability or when the works may be required. The site is regularly tested to ensure compliance with the Environment Protection Act 1990.

- The National Museum of the Royal Navy Trading has leased the Hartlepool Maritime Experience for a period of 35 years and has taken over the running of the site. Members of staff have been transferred under TUPE arrangement. The Council has indemnified against all losses incurred by the National Museum of the Royal Navy Trading in any failure by the Council to comply with its obligations. Any liabilities, costs or contributions arising under the Pension Scheme have also been indemnified. The pension liability reduces each year.

Note 47: Pooled Budgets

The Better Care Fund (BCF) has been established by the Government to support the introduction of a fully integrated health and social care system.

In 2015/16 the Council entered into a pooled budget arrangement with NHS Hartlepool and Stockton Clinical Commissioning Group for the provision of services in accordance with the requirements of the Better Care Fund.

This is an annual agreement made in accordance with Section 75 of the National Health Service Act 2006. This is a jointly controlled pooled budget which is hosted by the Council on behalf of both partners in line with the agreement.

The Hartlepool BCF Plan will contribute to the delivery of:

- Reduced non-elective admissions;
- Reduced admissions of older people into residential care;
- Increased proportion of older people still at home 91 days after discharge from hospital into reablement/rehabilitation services;
- Reduced delayed transfers of care from hospital;
- Increase in the estimated diagnosis rate for dementia; and,
- Improved patient experience of services.

2015/16 £000s		2016/17 £000s
	Revenue Funding provided to the Pooled Budget:	
-	Hartlepool Borough Council	(277)
(6,651)	NHS Hartlepool and Stockton Clinical Commissioning Group	(6,699)
(6,651)		**(6,976)**
	Expenditure met from the Pooled Budget:	
5,916	Hartlepool Borough Council	5,514
735	NHS Hartlepool and Stockton Clinical Commissioning Group	1,462
6,651		**6,976**
-	**Net Surplus arising on the Pooled Budget during the year**	**-**

2015/16 £000s		2016/17 £000s
	Capital Funding provided to the Pooled Budget:	
0	Balance brought forward	(326)
(825)	Hartlepool Borough Council	(863)
-	NHS Hartlepool and Stockton Clinical Commissioning Group	-
(825)		**(1,189)**
	Expenditure met from the Pooled Budget:	
499	Hartlepool Borough Council	1,060
-	NHS Hartlepool and Stockton Clinical Commissioning Group	-
499		**1,060**
(326)	**Net Surplus arising on the Pooled Budget during the year**	**(129)**

The capital balance remaining relates to the Disabled Facilities Grant and has been fully committed in 2017/18 to fund additional commitments within this area.

HOUSING REVENUE ACCOUNT (HRA)

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

	2016/17 £000s
Expenditure	
Repairs and maintenance	253
Supervision and management	277
Rents, rates, taxes and other charges	22
Movement in the allowance for bad debts	8
Debt Management Expenses	8
Depreciation, impairment and revaluation losses of non-current assets	3,203
Total Expenditure	**3,771**
Income	
Dwelling Rents	(1,007)
Charges for services and facilities (net of voids)	(2)
Other Income	(19)
Total Income	**(1,028)**
Net Expenditure or (Income) of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement	**2,743**
Interest payable	292
Interest and investment income	(8)
Net interest on the net defined benefit liability	13
Deficit/(Surplus) for the year on HRA services	**3,040**

MOVEMENT ON THE HRA STATEMENT

	2016/17 £000s
Balance on the HRA at the end of the previous reporting period	-
(Surplus) or Deficit for the year on the HRA Income and Expenditure Statement	3,039
Adjustments between accounting basis and funding basis under statute:	
Revaluations losses	(3,024)
IAS19 Pensions Adjustment	(23)
Net (increase) or decrease before transfers to or from reserves	**(8)**
Transfers to or (from) earmarked reserves	(530)
(Increase) or decrease in the year on the HRA	**(538)**
Balance on the HRA at the end of the current reporting period	**(538)**

An Earmarked Reserve of £0.530m relating to Housing was transferred to the HRA reserve.

NOTES TO THE HRA

Note 1: Depreciation and Revaluation

Included within The HRA is a depreciation charge of £0.179m which transfers funding into the Major Repairs Reserve to meet the cost of future major repairs. The loss on revaluation for the year was £3.024m. This is prevented from being a true cost to the HRA by an adjustment between accounting basis and funding basis under statute on the 'Movement on the HRA Statement'.

Note 2: Capital Expenditure and Financing

	2016/17 £000s
Acquisition and renovation of Council Dwellings	1,535
Major Repairs	32
	1,567
Funded by:	
Borrowing	921
Homes & Communities Agency Grant	407
Income from Sale of former Right to Buy properties	207
Major Repairs Reserve	32
	1,567

Note 3: Value of Council Dwellings

There were 243 Council Dwellings held as at 31 March, 2017. The table below shows the vacant possession value and the balance sheet value based on social housing use. The difference represents the economic cost of providing council housing at less than market rent.

1st April, 2017 £000's		31st March, 2017 £000's
8,579	Balance Sheet Value	6,473
19,217	Vacant Possession Value	14,500

Note 4: Rent Arrears

The level of rent arrears as at 31 March, 2017 was £0.077m and the provision in respect of these debts which are uncollectable is £0.037m.

THE COLLECTION FUND

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

2015/16 £000			2016/17 £000	Notes
	INCOME			
	Council Tax :			
(39,152)	Billed to tax payers		(40,771)	
(39,152)			(40,771)	*1*
	Non Domestic Rates :			
(27,872)	Income Collectable from Business Ratepayers		(31,843)	*2*
35,870	Transitional Protection Payment		75	
-	Deferral Scheme		15	
7,998			(31,753)	
(31,154)		**TOTAL INCOME**	**(72,524)**	
	EXPENDITURE			
	Council Tax :			
31,659	Precepts	Hartlepool Borough Council	34,320	
4,599		Police & Crime Commissioner	4,894	
1,569		Cleveland Fire Authority	1,668	
192	Increased Provision for Non-Payment of Council Tax		54	
38,019			40,936	
	Non Domestic Rates :			
	Payment of Non Domestic Rates to Preceptors			
19,229		Hartlepool Borough Council	15,873	
392		Cleveland Fire Authority	324	
19,536	Payment of Non Domestic Rates to Central Government		16,080	
125	Cost of Collection Allowance		119	
204	Increased Provision for Non-Payment of NNDR		(172)	
3,355	Provision for Non Domestic Rating Appeals		(2,603)	
86	Enterprise Zone Relief		117	
42,927			29,738	
	Contributions for previous years estimated			
	Collection Fund Surplus/(Deficit) - Council Tax			
652	Hartlepool Borough Council		963	
93	Police & Crime Commissioner		140	
32	Cleveland Fire Authority		48	
777			1,151	
	Contributions for previous years estimated			
	Collection Fund Surplus/(Deficit) - Non-Domestic Rates:			
(362)	Hartlepool Borough Council		(20,501)	
(7)	Cleveland Fire Authority		(418)	
(369)	Central Government		(20,919)	
(738)			(41,838)	
80,985		**TOTAL EXPENDITURE**	**29,987**	
49,831	**NET TOTAL**		**(42,537)**	
	Movement on Fund Balances			
	Council Tax:			
(356)	(Surplus)/Deficit for the year		1,316	
(797)	(Surplus)/Deficit brought forward		(1,153)	
(1,153)	(Surplus)/Deficit carried forward		**163**	
	Non Domestic Rates:			
50,187	(Surplus)/Deficit for the year		(43,854)	
(3,742)	(Surplus)/Deficit brought forward		46,445	
46,445	(Surplus)/Deficit carried forward		**2,591**	

NOTES TO THE COLLECTION FUND

Note 1 - Council Tax

Council Tax income comes from a charge made on residential properties. The income is used to support the Council's General Fund revenue expenditure, as detailed in the Comprehensive Income and Expenditure Statement. It is also used to finance Hartlepool's share of the Police & Crime Commissioner's and Fire Authority's expenditure, through precepts made on the Council's Collection Fund. The level of Council Tax in any year is determined by estimating the income required by the Council and the Police and Fire Authorities, and dividing this by the Council Tax base, which comprises residential properties banded by value and charged accordingly.

To allow for comparison between years and authorities the tax base is expressed as the number of Band D properties in the district, which is calculated by multiplying the number of properties in a band by an appropriate weighting, ranging from 6/9 to 18/9.

There were 33,287 Band D equivalents in 2016/17 (33,368 for 2015/16) and the basic amount of Council Tax for a Band D property was £1,756.09 (£1,695.32 in 2015/16).

Set out in the table below are the Band D weightings, property numbers and income from each band level.

Band	Weighting to Band D	No. of properties in each band	Equivalent no. of Band D Properties	Hartlepool BC demand per property (Ex Parishes) £	Police & Crime Commissioner demand per property £	Fire Authority demand per property £	Total demand per property £	Total Income per band £000's
A	6/9	23,667	15,778	982.69	140.24	47.80	1,170.73	27,708
B	7/9	7,070	5,499	1,146.47	163.61	55.77	1,365.85	9,657
C	8/9	5,934	5,275	1,310.25	186.99	63.73	1,560.97	9,263
D	9/9	3,086	3,086	1,474.03	210.36	71.70	1,756.09	5,419
E	11/9	1,582	1,934	1,801.59	257.11	87.63	2,146.33	3,395
F	13/9	614	887	2,129.15	303.85	103.57	2,536.57	1,557
G	15/9	425	708	2,456.72	350.60	119.50	2,926.82	1,244
H	18/9	60	120	2,948.06	420.72	143.40	3,512.18	211
TOTALS		**42,438**	**33,287**					**58,454**

The income of £40.771m for 2016/17 (£39.152m for 2015/16) is receivable from the following sources :

2015/16 £000		**2016/17 £000**
56,569	Opening Liability	58,454
694	Net increase/(decrease) in liability	1,192
(98)	Disabled Relief	(97)
(5,467)	Discounts	(5,931)
(1,062)	Exemptions	(1,179)
(84)	Write Offs	(126)
(11,400)	Council Tax Support Scheme	(11,542)
39,152		**40,771**

NOTES TO THE COLLECTION FUND

Note 2 - Non Domestic Rates

National Non Domestic Rates (NNDR) is organised on a national basis. The Government specifies two amounts: the Small Business Non Domestic Rate Multiplier, which was 48.4p in 2016/17 (48.0p in 2015/16), and; the Non Domestic Rate Multiplier, which was 49.7p in 2016/17 (49.3p in 2015/16). Subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount.

The total non-domestic rateable value at the year end was £79.501m.

The owners of the Power Station appealed against its 2010 rateable value and made a further appeal linked to reduced power generating capacity. These appeals were settled in 2015/16 and have significantly impacted on the rates payable by the Power Station, a reduction of 48%. The NNDR income collectable from Ratepayers including the impact of the Power Station appeal is shown below.

2015/16				2016/17
Rates Payable prior to Power Station Appeal	**Impact of Power Station Appeal**	**Rates Payable after impact of Power Station Appeal**		**Rates Payable**
£000	**£000**	**£000**		**£000**
46,734	(48,938)	(2,204)	Gross Rates payable	38,035
(5,720)	0	(5,720)	Mandatory Reliefs	(5,716)
29	35,841	35,870	Transitional Relief	75
(74)	0	(74)	Write Offs	(552)
40,969	**(13,097)**	**27,872**		**31,842**

MEMORANDUM NOTES - TRUST FUNDS

During 2016/17 the Council acted as trustee for eleven Educational Trust Funds that were inherited from Cleveland County Council. Only two of these are active and are used to provide funds for the following purposes:

- Music awards; and
- Pursuit of Education awards.

The Council also acts as a trustee of the Doughty Fund that was set up following a bequest from Colonel Henry Doughty. This is available to support any charitable objects within the Hartlepool area.

All of the Trust Funds administered by the Council fall below the threshold set by the Charities Act 1996 and therefore no longer require an Audit Certificate.

The balances held by the Council on behalf of various Trust Funds are as follows: -

	Balance at 1st April 2016 £000	**Income £000**	**Expenditure £000**	**Balance at 31st March 2017 £000**
Preston Simpson & Sterndale Scholarship in Music	82	**8**	**8**	82
Doughty Fund	5	**-**	**-**	5
Education Trust Funds	129	**4**	**2**	131
	216	**12**	**10**	**218**

The Preston Simpson & Sterndale Scholarship in Music Fund consisted of a cash investment of £82,117 with Hartlepool Borough Council as at 31 March, 2017. The Trust also held two separate external investments valued respectively at £116,077 as at 5 April, 2017 (£108,129 as at 5 April, 2016) and £20,620 as at 31 March, 2017 (£17,094 as at 31 March, 2016).

External investments for the above Trust Funds are not shown in the Council's Accounts.

As at 31 March, 2017, the Doughty Fund consisted wholly of a cash balance investment with the Council.

SECTION 4 : Annual Governance Statement

Scope Of Responsibility

Hartlepool Borough Council is responsible for ensuring that:

- Its business is conducted in accordance with the law and proper standards,
- Public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging these overall responsibilities, Hartlepool Borough Council is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government 2016. A copy of the code is on our website at www.Hartlepool.gov.uk or can be obtained from the Councils Contact Centre. This statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, Part 2 6(1), (a) which requires the Council to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with the statement of accounts. Regulation 6(1) (b) of the Accounts and Audit (England) Regulations 2015, require that for a local authority that statement is an annual governance statement.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and to manage them efficiently, effectively and economically. The governance framework has been in place at the Council for the year ended 31st March 2017 and up to the date of approval of the statement of accounts

In order to facilitate the completion of the Statement, an officer working group has been formed and a programme of work developed. To ensure that the Statement has been given sufficient corporate priority and profile, the working group included the Director of Finance and Policy and the Assistant Director, Finance and Customer Services. As part of the process regular updates have been given to the Performance and Risk Management Officer Group and the Corporate Management Team (CMT).

Significant Governance Issues Update from 2015/16 Statement

Progress has been made over the course of 2016/17 to actively manage and address issues identified as part of the 2015/16 process. This approach ensures the Council actively manages these issues. The table below identifies action that has been taken to mitigate the areas identified.

Issue Raised	Action Undertaken
Delivery of Medium Term Financial Strategy, the sustainability of services and level of performance.	Revised Savings Programme encompassing key required programme elements at a corporate and department level were developed and implemented. Strategic multi-year approach to financial management has been implemented. Member's seminars and staff communication strategy in conjunction with budget monitoring and de-funding budgets at decision point have been implemented. Project planning and management reporting to Finance and Policy Committee and CMT have all been implemented.
Delivery of Council Plan.	The Council Plan 2016/17 has been largely delivered and is reported to Members via Finance and Policy Committee on a quarterly basis. The Council Plan for 2017/18 has been developed based on the agreed ambition for Hartlepool. This year the Council Plan, Medium Term Financial Strategy and the 5 year Capital Plan have been developed as three parts of a single plan to ensure the links between the three are strengthened.
Ensuring adequate management arrangements for non-core grant funding.	Review of departmental arrangements undertaken to ensure risks are mitigated. Development and agreement of strategies and plans for effective working between HBC and partner organisations.

SECTION 4 : Annual Governance Statement

The Governance Framework

The key elements of the Council's Governance Framework are as follows:

Hartlepool Borough Council has adopted a Constitution, which sets out how the Council operates, how decisions are made, the procedures that are followed to ensure that these decisions are efficient and transparent, and sets out the terms of reference for the Committee structure. The Constitution was developed in accordance with the Local Government Act 2000 and it sets out the delegated responsibilities to key officers such as the Monitoring Officer and Section 151 Officer. An officer working group supported the governance working group in developing proposals for the new Constitution in line with the outcome of the Mayoral referendum. The new Constitution was agreed on 6th March, 2013 with training delivered for officers and members in respect of the requirements and expectations. The Constitution is scheduled to be reviewed annually and has subsequently been reviewed and the outcomes reported to Council on the 17th March 2016, with a supplemental review reported to Council on 8th September 2016. A further update was reported to Council on 27th October 2016.

Effective procedures to identify, evaluate, communicate, implement, comply with and monitor legislative change exist and are used. Legal Division procedures exist for monitoring new legislation, advising relevant departments, and members where appropriate. Workforce Services policies identify suitable recruitment methods and ensure appropriate job descriptions exist for legal staff. Induction training is arranged by Customer and Workforce Services for all staff, departments have responsibility to provide induction training specific to their departmental needs. Legal personnel participate in training events.

Committee terms of reference are included in the constitution. A procedure is in place to ensure that all Committee agendas, minutes and supporting material are available to all staff on the Council's intranet, and to the public on the Council's Internet site.

The constitution contains financial and contract procedure rules, and code of conduct for Members, which have been formally approved. Financial procedure rules have been updated and agreed by Council and contract procedure rules have also been updated to take into account new procurement procedures and legislative changes. The constitution is available to all employees on the intranet and to the public on the Internet. A register of gifts and hospitality is maintained for Members and Officers. The Authority has a Treasury Management Strategy that was approved by Audit and Governance Committee on 8th December, 2016 and referred to Council for approval on 23rd February, 2017 for the financial year 2017/18. The approved Treasury Management Strategy includes the Investment and Borrowing strategies in compliance with revised CIPFA Prudential Code, CIPFA Treasury Management Code of Practice and DCLG guidance. The Audit and Governance Committee is responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies before making any necessary recommendations to Council. The Director of Finance and Policy reports to the Audit and Governance Committee how the Council financial arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The full range of Member committees regularly meet to review specific policy areas, to consider plans, reports and progress of the Council.

Workforce Services has drawn up policies to ensure suitably qualified employees are employed in key areas. Supporting terms and conditions of employment for all employees cover all aspects of good employment. Induction courses for key new officers and all new Members incorporate suitable training on corporate governance issues according to responsibilities and there is a general staff awareness programme in place.

A Health and Safety Policy has been approved and published and a Communication Strategy implemented to ensure general awareness.

The Council has an ongoing programme of monitoring and reviewing arrangements in place in respect of the operation of its key partnerships. A framework of reporting by exception to Corporate Management Team operates and Internal Audit provides audit coverage of partnership arrangements.

The Council reviewed and adopted their Community Strategy on 3rd April 2014 following consultation with residents and key partners. This identified a number of key priorities for Hartlepool which would be the main focus for improvement over the following 5 years. The Council produces a Council Plan that sets out the Council's ambitions for the town. The Council Plan 2017/18-2019/20 was agreed by Council on 16th March 2017. For the first time, this year the Council Plan, Medium Term Financial Strategy and the 5 year Capital Plan have been developed as three parts of a single plan to ensure the links between the three are strengthened. The Council's performance management arrangements are based on the Council Plan which identifies a series of 6 strategic priorities under which sit a number of key deliverables.

In order to further embed the process of risk management, control identification and the production of the AGS into the culture and management processes at the Council, risks to meeting departmental outcomes and the controls to mitigate those risks are recorded as part of the corporate service planning process at a departmental level. This has brought together service planning, risk management and control identification which has enabled a much more focussed and joined up approach to the use of management information and the production of the AGS. Progress against the Council Plan is reported to CMT and Finance & Policy Committee on a quarterly basis.

SECTION 4 : Annual Governance Statement

A Data Quality framework is in place with Internal Audit conducting a targeted annual review of PIs. The Council's Performance Management Framework includes information relating to departmental and officer responsibility for the collation of data, target setting and addressing performance issues. The Framework also includes action plans, risks and performance indicators enabling clearer links between corporate, departmental and service planning outcomes, actions, risks and PIs.

Key performance indicators are identified in the Council plan. These indicators are monitored throughout the year and quarterly reports are presented to Members on the delivery of performance targets.

Key policies such as the Corporate Complaints, Comments and Compliments Procedure, Proceeds of Crime (Money Laundering), Whistle Blowing Policy and Counter Fraud and Corruption Policy have been developed and approved for use across the whole Authority. The policies are available to employees via the intranet. The Council is a member of the IPF Better Governance Forum, the National Anti Fraud Network and also takes part in regular National Fraud Initiative reviews and the North East Fraud Forum. The Council has updated its Fraud and Corruption Strategy in line with CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

The Council agreed the current Risk Management Framework on 5th March 2015. The Framework sets out the structure of the Council's risk registers and the agreed risk tolerance level which helps to prioritise risk activity. Key risks will be identified within the Council Plan and changes reported to Elected Members quarterly through the service planning process.

The Framework is available to all staff via the intranet. Key staff have undergone appropriate training and departmental risk champions lead on communicating the process to all relevant staff in their departments.

There is corporate support at senior management level for development of Risk Management with risk assessment procedures published and training given to officers. Risk introduction/refresher sessions are offered as and when individual departments/teams require them.

The Finance and Policy Committee Chair is Hartlepool Borough Councils risk 'champion'. Each department also has a risk co-ordinator. Risks and control measures relating to the Council Plan are analysed within the quarterly reports to help ensure that risk and performance reporting are linked. The Council Plan is considered as part of the preparation of the AGS.

The Council's Performance and Risk Management system (Covalent) holds the risk registers. Risk registers are also maintained for significant projects. Officers that manage risks are notified that risks need to be reviewed and progress is monitored on a quarterly basis through the service planning process. Departments have access to a central funding pot for risk management to assist in the financing of risk mitigation.

The Council has a long-standing, nationally and regionally recognised emergency planning arrangements through the Cleveland Emergency Planning Unit (CEPU). The Council's Emergency Management Response Team (EMRT) meets bi-monthly and contributes to the makeup of the Council's Major Incident Plan which is tested yearly.

A review of the Council's Flu Pandemic Plan is being undertaken by Public Health to take into account the changes in the National Health Pandemic Flu Plan. Once this is completed the plan will be incorporated into the Corporate Business Continuity Plan.

The Corporate Business Continuity Group meets Quarterly and includes lead officers from all departments and the Hartlepool Emergency Planning Officer. A Revised Business Continuity Policy and accompanying Plan has been developed to complement the existing Business Continuity Database. A rolling exercising programme is in place to test the plan focusing on two separate services per year. Work is still ongoing to identify and document formal decant arrangements for the delivery of priority services in the event of a disruption.

The Equality Act 2010 came into force on 1st October, 2010 and brought together over 116 separate pieces of legislation into one single Act. The Act provides a legal framework to protect the rights of individuals and advance equality of opportunity for all. The Act covers the 9 protected characteristics – age, disability, gender reassignment, marriage/civil partnership, pregnancy/maternity, race, religion/belief, gender and sexual orientation.

The Public Sector Equality Duty (PSED) is supported by "specific duties" to assist public bodies to achieve the aims of the general duty. Under the specific duties, the Council must:

- Publish equalities information to demonstrate its compliance with the Equality Duty by the 31st January each year; and,
- Develop and publish equality objectives by 6th April, 2012 and then every four years.

In order to demonstrate our compliance with the above requirements, we have compiled two equality reports 'Equality Information - Jan 2017' and 'Workforce Equalities Information 2015-16' to demonstrate the progress that the Council has made to date. We are aware that there are gaps in our data and are working to provide more information in an accessible format. On that basis both reports are regularly updated. Our latest equality objectives were agreed by Council as part of the Council Plan 2017/18 – 2019/20 on 16th March 2017.

Equality issues must influence the decisions reached by public bodies - in how they act as employers; how they develop, evaluate and review policy; how they design, deliver and evaluate services, and how they commission and procure from others. We do this by considering impacts on equality as an integral part of our decision-making process and this is reflected in reports to Committees in the Equality & Diversity Considerations section.

Internal Audit reports on a regular basis to the Audit and Governance Committee on the effectiveness of the organisation's system of internal control. Recommendations for improvement are also made and reported on. Internal Audits performance is measured against standards agreed by management and Members. Internal Audit reporting arrangements have been formalised and strengthened as part of the review of financial procedure rules.

Other review bodies external to the Council also make regular reports on efficiency, effectiveness and compliance with regulations. Ofsted has rated the Council's Children's Services as "performing well". The most recent SIF inspection which is the most comprehensive inspection framework for CS rated Hartlepool CS as 'good'. Most childcare providers and schools are rated "good" or "outstanding" and none are "inadequate". Hartlepool Connect has achieved the Customer Service Excellence standard. In their 2015/16 Annual Audit Letter, Mazars, the Councils External Auditor, issued an unqualified opinion on the financial statements and value for money conclusion at the Council.

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Audit and Governance's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:

- Corporate Management Team agreed process for the review of the internal control environment. The risk inherent in meeting departmental objectives and the controls to mitigate those risks are recorded as part of the corporate service planning process at a departmental level. This has brought together risk management, control identification and the process for compiling the evidence needed to produce the AGS. This enables managers to provide documented evidence regarding the controls within their service units as part of the service planning process. The controls in place are designed to negate the identified and recorded risks of not achieving service, departmental or corporate objectives. In order to ensure adequate controls are in place the procedures, processes and management arrangements in place to mitigate identified risks and the officers responsible for them are also documented. Gaps in controls can be addressed as part of the regular reviews of departmental risks and control measures.
- Director of Finance and Policy – reports to the Audit and Governance Committee how the Council's financial arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- Internal Audit – the Council has the responsibility for maintaining and reviewing the system of internal control and reviewing annually Internal Audit. In practice, the Council, and its External Auditors, takes assurance from the work of Internal Audit. In fulfilling this responsibility:
    - Internal Audit is reviewing its procedures in line with Public Sector Internal Audit Standards (PSIAS).
    - Internal Audit reports to the Section 151 Officer and Audit and Governance Committee.
    - The Head of Audit and Governance reports to the Audit and Governance Committee how the Council's financial arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010).
    - The Head of Audit and Governance provides an independent opinion on the adequacy and effectiveness of the system of internal control, quarterly update reports and an annual internal audit performance report to the Audit and Governance Committee
    - Internal audit plans are formulated from an approved risk assessment package.

SECTION 4 : Annual Governance Statement

- External Audit – in their annual audit letter, comment on their overall assessment of the Council. It draws on the findings and conclusions from the audit of the Council.

- Other review and assurance mechanisms: for example, Department of Education, Care Quality Commission, Ofsted, HMI Probation and Service Excellence.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Governance Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant Governance Issues

The following significant governance issues have been identified:

No	Issue	Action	Timescale	Responsible Officer
1	Delivery of Council Plan, revised Performance Management Framework and Medium Term Financial Strategy, the sustainability of services and level of performance.	The approved 2017/18 MTFS includes savings proposals to be implemented in 2018/19 and 2019/20. However, after reflecting these proposals the Council still faces net budget deficits in these years. Detailed proposals for addressing the residual budget deficits will be developed during 2017/18, this will ensure these proposals can be implemented in 2018/19 and 2019/20. The implementation and refresh of the new 3 year Council Plan taking into account the impact of the financial challenges facing the Council, with regular performance reporting to CMT and Members.	2017/18 – 2019/20	CMT
2	Ensuring appropriate arrangements for Information Governance – complying with NHS requirements.	From May 2017 the Council will directly employ School Nursing, Health Visiting and Family Nurse Partnership staff who will require direct access to NHS systems for patient records. In order to gain access to these systems the Council must demonstrate compliance with the Department of Health Information Governance Toolkit.	2017	CMT, Information Governance Group
3	Ensuring adequate management arrangements for noncore grant funding.	The Council is accountable body for competitively secured time limited grant resources for projects that requires the authority to have in place robust arrangements for managing such funding streams. Ongoing assurance of adequate systems to ensure appropriate governance. Development and agreement of strategy and plan for effective working between HBC and partners.	2017/18	CMT

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed on behalf of Hartlepool Borough Council:

Chief Executive

Chair of Audit and Governance Committee

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

Opinion on the Council Financial Statements

We have audited the financial statements of Hartlepool Borough Council for the year ended 31 March, 2016 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 2015/16.

This report is made solely to the members of Hartlepool Borough Council 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 the 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 the Hartlepool Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and Auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer 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 2015/16, 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 Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements. 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 Hartlepool Borough Council as at 31 March, 2016 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 2015/16.

Opinion on Other Matters

In our opinion, the information given in the Narrative Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Matters on which We Report by Exception

We report to you if;

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 24, schedule 7 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24, schedule 7 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.

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

Respective responsibilities of the Council and the Auditor

The Council 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 Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office, requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

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

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office, we are satisfied that, in all significant respects, Hartlepool Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March, 2016.

Certificate

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

Cameron Waddell,

For and on behalf of Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Date:

SECTION 6 : Glossary of Terms

ACCOUNTING POLICIES

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

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

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the Income and Expenditure Account or Balance Sheet it is to be presented.

ACTUARIAL GAINS AND LOSSES

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

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

CAPITAL EXPENDITURE

Expenditure on the acquisition of an asset or expenditure that adds to and not merely maintains the value of an existing asset.

CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING

The Chartered Institute of Public Finance and Accounting (CIPFA) Code sets out the accounting concepts and accounting principles which underpin the statement of accounts.

COMMUNITY ASSETS

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

CONSISTENCY

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

CONSTRUCTIVE OBLIGATION

An obligation that derives from an Authority's actions where:

a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the Authority has indicated to other parties that it will accept certain responsibilities; and

b) as a result, the Authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

CONTINGENT LIABILITY

A contingent liability is either:

a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control or;

b) a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

CREDITORS

Amounts owed by the Authority for work done, goods received or services rendered within the accounting period but for which payment was not made at the balance sheet date.

CURRENT ASSETS

Assets which can be expected to be consumed or realised during the next accounting period, e.g. debtors and stocks.

CURRENT LIABILITIES

Amounts which will become payable or could be called in within the next accounting period e.g. creditors, cash overdrawn.

CURRENT SERVICE COST (PENSIONS)

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

CURTAILMENT

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

a) termination of employee's services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business; and

b) termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify for only reduced benefits.

DEBTORS

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

DEFINED BENEFIT SCHEME

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

DEFINED CONTRIBUTION SCHEME

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

DEPRECIATION

The measure of the cost or revalued amount of the benefits of the asset that have been consumed during the period.

Consumption includes the wearing out, using up or other reduction in the useful life of an asset whether arising from use or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

SECTION 6 : Glossary of Terms

DISCRETIONARY BENEFITS

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

ESTIMATION TECHNIQUES

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

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

a) Methods of depreciation, such as straight-line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of property, plant and equipment consumed in a period

b) Difference methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

EXCEPTIONAL ITEMS

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

EXPECTED RATE OF RETURN ON PENSION ASSETS

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

FAIR VALUE

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

FINANCE LEASE

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

FINANCIAL INSTRUMENT

A legally enforceable agreement between two or more parties, expressing a contractual right or a right to the payment of money. Typical examples include investments, loans, trade creditors and trade debtors.

GOING CONCERN

The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and Balance Sheet assume no intention to curtail significantly the scale of operations.

GOVERNMENT GRANTS

Assistance by Government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an Authority in return for past or future compliance with certain conditions relating to the activities of the Authority.

HERITAGE ASSETS

Assets preserved in trust for future generations because of their cultural, environmental or historical associations. It applies to assets held and maintained by the Authority principally for the contribution of knowledge and culture.

HOUSING REVENUE ACCOUNT

Local Authorities are required to maintain a separate Housing Revenue Account - which sets out the expenditure and income arising from the provision of Council housing. Other services are charged to the General Fund.

IMPAIRMENT

A reduction in the value of Property, Plant and Equipment below its carrying amount on the Balance Sheet.

INFRASTRUCTURE ASSETS

These assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

INTANGIBLE ASSETS

Expenditure which may properly be capitalised, but which does not result in an asset with substance. Examples of this type of expenditure are software and other licences, patents and trademarks and artistic originals.

INTEREST COST (PENSIONS)

For a defined benefit scheme, the expected increase during the period is the present value of the scheme liabilities because the benefits are one period closer to settlement.

INTERNATIONAL ACCOUNTING STANDARDS (IAS)

These standards are developed by the International Accounting Standards Board and regulate the preparation and presentation of financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

These standards are developed by the International Accounting Standards Board and regulate the preparation and presentation of financial statements. The Companies Act 1985 requires compliance with these Standards or disclosures in the notes if there are any material departures from these Standards.

INVENTORIES

The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises.

Inventories comprises the following categories:

- goods or other assets purchased for resale;
- consumable stores;
- raw materials and components purchased for incorporation into products for sale;
- products and services in intermediate stages of completion;
- long term contract balances; and
- finished goods.

INVESTMENT PROPERTIES

Interest in land and/or buildings:

a) in respect of which construction work and development have been completed; and

b) which is held for its investment potential, any rental income being negotiated at arm's length.

INVESTMENTS (PENSIONS FUND)

The investments of the Pensions Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of Pension Scheme assets associated with their underlying obligations.

LIQUID RESOURCES

Current asset investments that are readily disposable by the Authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

LONG TERM CONTRACTS

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts if they are sufficiently material to the activity of the period.

MINIMUM REVENUE PROVISION (MRP)

The statutory minimum amount that authorities must set aside each year as provision for debt repayment based on the Capital Financing Requirement.

NET BOOK VALUE

The amount at which assets are included in the Balance Sheet, that is their historical cost of current value less the cumulative amounts provided for depreciation.

NET CURRENT REPLACEMENT COST

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, that is the cost of its replacement or of the nearest equivalent asset adjusted to reflect the current condition of the existing asset.

NET DEBT

The Authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

NET REALISABLE VALUE

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

NON-CURRENT ASSET

Assets that yield benefits to the Authority, and the services it provides, for a period of more than one year.

NON-OPERATIONAL ASSETS

Assets held by a local authority but not used or consumed in the delivery of services or for the service or strategic objectives of the Authority. Examples of non-operational assets include investment properties and assets that are surplus to requirements, pending their sale. It should be noted that the incidence of rental income does not necessarily mean that the asset is an investment property; it would be deemed an investment property only if the asset is held solely for investment purposes and does not support the service or strategic objectives of the Authority and the rental income is negotiated at arm's length.

OPERATING LEASES

A lease other than a finance lease.

OPERATIONAL ASSETS

Assets held and occupied, used or consumed by the Local Authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the Authority.

PAST SERVICE COST

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

PRIOR PERIOD ADJUSTMENTS

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of material errors. A material error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior

PROJECTED UNIT METHOD

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and

b) the accrued benefits for members in service of the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

PROPERTY, PLANT & EQUIPMENT

This covers all assets with physical substance that are for use in the production or supply of goods and services, for rental to others, or for administrative purpose, and expected to be used during more than one period.

SECTION 6 : Glossary of Terms

PROVISION

Funds set aside to cover potential liabilities or losses which are likely or certain to be incurred at a future date but where the exact amount and timing of the liability or loss is currently not known.

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one on the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:

- Central Government;
- Local Authorities and other bodies precepting or levying demands on the Council Tax;
- its subsidiary and associated companies;
- its joint ventures and joint venture partners;
- its Councillors;
- its Chief Officers; and
- its Pension Fund.

Examples of related parties of a pension fund include its:

- administering Authority and its related parties;
- scheduled bodies and their related parties; and
- Trustees and Advisors.

These lists are not intended to be comprehensive

For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the Pension Fund;
- the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- the provision of services to a related party, including the provision of pension fund administration services;
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, Rents and payment of benefits.

This list is not intended to be comprehensive.

The materiality of related party transactions should be judged not only in terms of their significance to the Authority, but also in relation to its related party.

REMUNERATION

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

RESERVES

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Authority. Some capital reserves such as the Revaluation Reserve cannot be used to meet current expenditure.

RESIDUAL VALUE

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

RETIREMENT BENEFITS

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- an employer's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Revenue expenditure funded by capital under statute. This is expenditure that can be properly capitalised, but which does not result in an asset for the Authority. Expenditure is therefore written off to revenue.

SAFETY-NET GRANT

This grant is received by Local Authorities whose business rates income drops below a set percentage (92.5%) of the minimum level the Local Authority requires as determined by the Government.

SCHEME LIABILITIES

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

SERVICE REPORTING CODE OF PRACTICE

A Chartered Institute of Public Finance and Accountancy (CIPFA) guide to accounting for local government services which provides a consistent and comparable calculation of the total costs of services.

SETTLEMENT

An irrecoverable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrecoverable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

SECTION 6 : Glossary of Terms

USEFUL LIFE

The period over which the Authority will derive benefits from the use of an asset.

FURTHER INFORMATION

Copies of this document can also be provided on audiotape or in large print, Braille and ethnic minority languages on request. We can also be contacted via Typetalk and enquiries in any language can be dealt with in person or on the telephone using Language Line instant translation service.

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AUDIT AND GOVERNANCE COMMITTEE

19 July 2017

HARTLEPOOL BOROUGH COUNCIL

Report of: Head of Audit and Governance

Subject: INTERNAL AUDIT PLAN 2017/18 UPDATE

1. PURPOSE OF REPORT

1.1 To inform Members of the progress made to date completing the internal audit plan for 2017/18.

2. BACKGROUND

2.1 In order to ensure that the Audit and Governance Committee meets its remit, it is important that it is kept up to date with the ongoing progress of the Internal Audit section in completing its plan. Regular updates allow the Committee to form an opinion on the controls in operation within the Council. This in turn allows the Committee to fully review the Annual Governance Statement, which will be presented to a future meeting of the Committee, and after review, will form part of the statement of accounts of the Council

3. PROPOSALS

3.1 That members consider the issues within the report in relation to their role in respect of the Councils governance arrangements. Table 1 of the report detailed below, sets out the school audits that have been completed and the recommendations made.

Table 1

Audit	Objectives	Recommendations	Agreed
Sacred Heart Primary	Ensure school finance and governance arrangements are in line with best practice.	- The Governors should evaluate and discuss the Schools Financial Value Standard before completing and returning a copy the LA. - Annual accounts should be presented to the Governing Body. - The full staffing structure of the school should be reviewed periodically. - School should regularly review and update the costs and charges for wrap	Y Y Y Y

Audit	Objectives	Recommendations	Agreed
		around clubs to ensure the clubs are not running at a loss. - Two members of staff should count and reconcile cash on a daily basis; this should be documented on the daily register. Any discrepancies should be investigated immediately. - Contract Procedure Rules should be followed when acquiring goods / services in excess of £5000. - The school's Information Classification Scheme is presented to the Governing Body for approval.	 Y Y Y
Barnard Grove Primary	Ensure school finance and governance arrangements are in line with best practice.	- Internal Audit will provide the Head Teacher with a fraud awareness training disc to enable Governors and relevant staff to undertake the training. - Both benchmarking reports will be presented to the next Governing Body meeting after receipt of the budget pack and minutes will be forwarded to Internal Audit to confirm this has taken place. - The inventory records should be updated to include the following details: date of purchase, name/description of item, cost of item, serial number and/or other identifying information (make, model, reference number), location of item, disposal of item (date and method). An annual stock check is also required and this should be performed by someone who is independent of the maintenance of the inventory records and evidenced. - Orders should be used for all goods and services with a few limited exceptions. These orders should then be committed on the school's financial system to prevent overspending. - The school should present the suite of policies at the next available Governing Body meeting and minute the approval for use. The Head Teacher will then roll out the policies to all staff and ensure that an agreement is signed to indicate that the staff have read, understood and agree to abide by the policies. In future years this suite of policies will be added to the internal policies which are redistributed annually to all staff who then sign to indicate they have read, understood and will abide by the policies.	Y Y Y Y Y
St Hilds Secondary	Ensure school finance and governance arrangements are in line with best practice.	- The school should seek confirmation from the ICT Managed Service Provider that effective arrangements are in place to prevent unauthorised software from being installed on school IT systems. Income records should be maintained to	Y

Audit	Objectives	Recommendations	Agreed
		enable a management trail to be in place which can provide assurance that all income due has been collected and banked and processed correctly.	
		- All income received by the school office should be recorded in an income record. Any income collected away from the school office should be banked and checked to source documents by Finance Staff to verify that all income due has been received, has been banked promptly and intact and once received recorded in the income record maintained. Staff collecting cash from the vending machine should verify amounts collected in writing.	Y
		- Clarification should be sought on significant balances held in the suspense account as a matter of urgency with a view to clearing the balance.	Y
		- Annual accounts that have been signed off by an independent examiner should be presented to the Governing Body.	Y

3.2 In terms of reporting internally at HBC, Internal Audit produces a draft report which includes a list of risks currently faced by the client in the area audited. It is the responsibility of the client to complete an action plan that details the actions proposed to mitigate those risks identified. Once the action plan has been provided to Internal Audit, it is the responsibility of the client to provide Internal Audit with evidence that any action has been implemented by an agreed date. The level of outstanding risk in each area audited is then reported to the Audit and Governance Committee.

3.3 The benefits of this reporting arrangement are that ownership of both the internal audit report and any resulting actions lie with the client. This reflects the fact that it is the responsibility of management to ensure adequate procedures are in place to manage risk within their areas of operation, making managers more risk aware in the performance of their duties. Greater assurance is gained that actions necessary to mitigate risk are implemented and less time is spent by both Internal Audit and management in ensuring audit reports are agreed. A greater breadth of assurance is given to management with the same Internal Audit resource and the approach to risk assessment mirrors the corporate approach to risk classification as recorded in covalent. Internal Audit can also demonstrate the benefit of the work it carries out in terms of the reduction of the risk faced by the Council.

3.4 Table 2 summarises the assurance placed on those audits completed with more detail regarding each audit and the risks identified and action plans agreed provided in Appendix A.

Table 2

Audit	**Assurance Level**
Fuel Management	**Satisfactory**
Public Health 0-5 Year Olds	**Satisfactory**
Youth Employment Initiative Claim Process	**Satisfactory**
Computer Audit – AnyComms System	**Satisfactory**
Social Fund Section 17 Payments	**Limited**
Youth Employment Initiative QTR 3 Claim	**Limited**
Youth Employment Initiative QTR 4 Claim	**Satisfactory**
Day Centres	**Limited**
School Catering	**Limited**
Computer Audit – Resource Link System	**Satisfactory**
Payroll	**Satisfactory**
Adult Education	**Limited**
Members Allowances	**Satisfactory**
Computer Audit – Mobile Devices	**Satisfactory**
Cash/Bank System	**Satisfactory**
Benefits	**Satisfactory**
Car Parking	**Limited**
Better Care Fund	**Satisfactory**

For Members information, Table 3 below defines what the levels of assurance Internal Audit places on the audits they complete and what they mean in practice:

Table 3

Assurance Level	**Meaning**
Satisfactory Assurance	Controls are operating satisfactorily and risk is adequately mitigated.
Limited Assurance	A number of key controls are not operating as intended and need immediate action.
No Assurance	A complete breakdown in control has occurred needing immediate action.

3.5 As indicated in table 2 a number of ‘limited assurance’ audit report have been issued and information on these issues is provided in paragraphs 3.6 to 3.12.

3.6 Social Fund Section 17 payments has been assessed as limited assurance. This was due to the fact that the policy was not up to date and sufficient evidence was not available to verify payments that had been made. It has been agreed that a new policy will be developed and a comprehensive recording system implemented.

3.7 Youth Employment Initiative Quarter 3 Claim has been assessed as limited assurance. This was due to anomalies found in the performance information claimed as part of the claim. Actions were agreed to mitigate this risk and a subsequent review of the Quarter 4 claim has verified that all actions have been implemented with a satisfactory assurance opinion issued.

3.8 Day Centres accounting arrangements has been assessed as limited assurance. This was due to the fact that there was a lack of procedures in place relating to administrative procedures and insufficient separation of duties regarding client's monies and income. Actions have been agreed that address these issues. This audit was carried out before the move to the new facility and a follow up audit will be carried to ensure procedures are implemented as agreed.

3.9 School Catering accounting arrangements has been assessed as limited assurance. This was due to the fact cash reconciliation processes were not adequate, there were concerns around the storage of keys and the recording and monitoring of stock and waste. Steps were taken to address these issues during the audit and a number of actions have been agreed to mitigate the risks identified.

3.10 Adult Education financial management was assessed as limited assurance. This was due to the fact that learner files were not always up to date, performance targets require reviewing and income could not be reconciled. A management review had identified changes required prior to the audit and further changes were identified during the audit process. It is expected that these will help address the issues identified. File checks introduced for 2016/17 will help provide ongoing assurance to management that the learner files contain the required information.

3.11 Car Parking accounting arrangements were assessed as limited assurance. This was due to the fact that there were discrepancies between machine readings and cash collected and the fact that the cash collection firm had missed contractually agreed collections. A number of actions have been agreed to mitigate the risks identified and improve the control environment. A full audit review will be carried out in 2017/18 to ensure all actions have been adequately implemented.

3.12 In order to ensure audits with a limited or no assurance level are monitored and reviewed adequately within Departments, a new procedure has been agreed by the Corporate Management Team where all such audits are reviewed at Director and the relevant Assistant Director and progress in addressing these issues will be managed through Department Management Team meetings. All of the audits highlighted above will be subject to this new process as well as normal internal audit follow up procedures.

3.13 As well as completing the audits previously mentioned, Internal Audit staff have been involved with the following working groups:

- Information Governance Group.
- Performance and Risk Management Group.

3.14 Table 4 below details the audits that were ongoing at the time of compiling the report.

Table 4

Audit	Objectives
Creditors	Ensure ordering, receiving and paying for goods/services are properly authorised and comply with the Authority's Financial Procedure Rules.
Contracts	Ensure adequate arrangements are in place to manage the three stages of contracts.
ITU Child and Adult Provision	Ensure transport services meet service user needs.
Direct Payments	The audit focused on the Direct Payments processes following assessment as well as the arrangements for monitoring use of funds so that the Authority is satisfied that the needs for which it is giving service users Direct Payments are being met.
Grange Primary	Ensure school finance and governance arrangements are in line with best practice.
Main Accounting Systems	Ensure identified risks are managed at an acceptable level with regard to legislative and regulatory requirements and financial accounts are accurate and complete.
Industrial Estate Lettings	To evaluate the procedures in place relating to income received by the Authority relating to Industrial Estate lettings and rentals.
Disaster Recovery	Ensure adequate procedures are in place in case of unexpected events occurring.
Computer Audit Network Controls	A network strategy exists and standards and policies are in place to support its delivery.
Attendance Management	Ensure that adequate policies and procedures are in place in relation to reporting, recording and monitoring of sickness absence across departments.
Ward Jackson Primary	Ensure school finance and governance arrangements are in line with best practice.
Springwell School	Ensure school finance and governance arrangements are in line with best practice.
Procurement	In relation to purchase cards review policy and procedures, permitted usage, restrictions on types of purchases, application process, card distribution and safe custody of cards, transaction process, reconciliation of statements and authorisation controls.
Stores	Ensure a complete, accurate and up to date stock record is maintained and checked to physical stock by staff who are independent of the day to day management of stock as defined in the Authority's Rules of Procedure.

3.15 The work completed and currently ongoing is in line with expectations at this time of year, and audit coverage to date has allowed Mazars to place reliance on the scope and quality of work completed when meeting their requirements under the Audit Code of Practice.

4. RISK IMPLICATIONS

4.1 There is a risk that if Members of the Audit and Governance Committee do not receive the information needed to enable a full and comprehensive review of governance arrangements at the Council, this would lead to the Committee being unable to fulfil its remit.

5. FINANCIAL CONSIDERATIONS

5.1 There are no financial considerations.

6. LEGAL CONSIDERATIONS

6.1 There are no legal considerations.

7. CHILD AND FAMILY POVERTY CONSIDERATIONS

7.1 There are no child and family poverty considerations.

8. EQUALITY AND DIVERSITY CONSIDERATIONS

8.1 There are no equality and diversity considerations.

9. STAFF CONSIDERATIONS

9.1 There are no staff considerations.

10. ASSET MANAGEMENT CONSIDERATIONS

10.1 There are no asset management considerations.

11. RECOMMENDATIONS

11.1 It is recommended that Members note the contents of the report.

12. REASON FOR RECOMMENDATIONS

12.1 To ensure that the Audit and Governance Committee meets its remit, it is important that it is kept up to date with the ongoing progress of the Internal Audit section in completing its plan.

13. BACKGROUND PAPERS

13.1 Internal Audit Reports.

14. CONTACT OFFICER

14.1 Noel Adamson
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Victoria Road
Hartlepool
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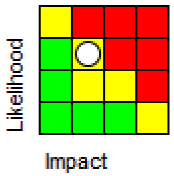
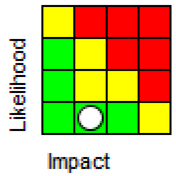
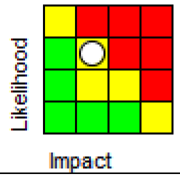
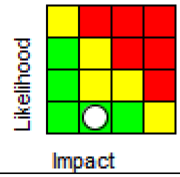
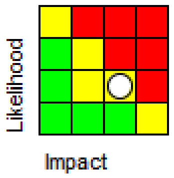
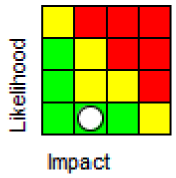
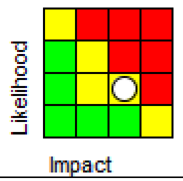
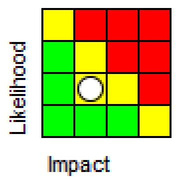
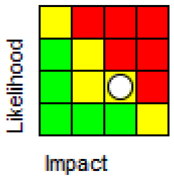
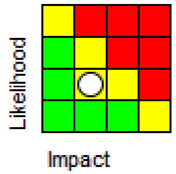
Appendix A

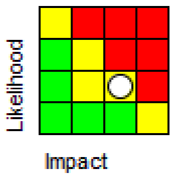
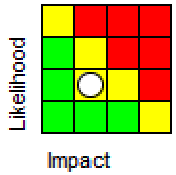
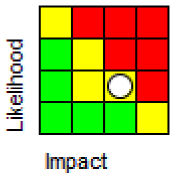
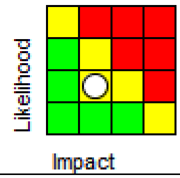
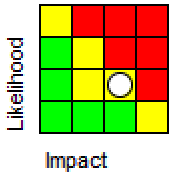
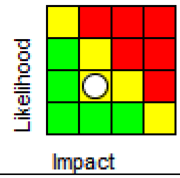
Audit	**Objective**		**Assurance Level**
Fuel Management	An effective fuel management system is in place which minimises consumption, provides for the security of fuel and reports usage accurately and completely.		**Satisfactory**
Risk Identified	**Risk Level prior to action implemented**	**Action Agreed**	**Risk Level after action implemented**
Fuel consumption may not be managed in the most economic, efficient and effective manner.		We are in the process of running down fuel stock levels at Lynn St Depot in readiness for decommissioning following the installation and commissioning of a new facility at Tofts Farm depot which I understand is scheduled to be completed/commissioned in 2 – 3 weeks. While the report is fairly accurate I cannot confirm the current level of security arrangements at the Depot, the 'key fob' barrier access has been removed and I am not confident that all cameras are working, although we are monitoring fuel usage and limiting fob access.	
Fuel may not be dispensed accurately.		As above.	

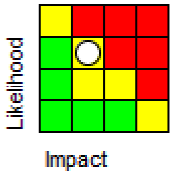
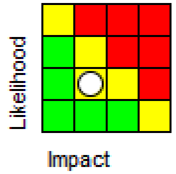
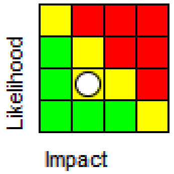
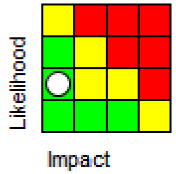
Audit	**Objective**		**Assurance Level**
Public Health 0-5 Year Olds Provision	An appropriate governance structure to effectively manage the identification of need for and subsequent delivery of public health services to children aged 0-5 years in Hartlepool.		**Satisfactory**
Risk Identified	**Risk Level prior to action implemented**	**Action Agreed**	**Risk Level after action implemented**
No unmitigated risk identified.			

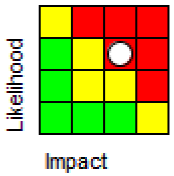
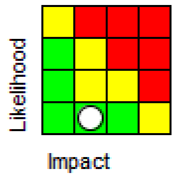
<table>
<tr><th>Audit</th><th colspan="2">Objective</th><th>Assurance Level</th></tr>
<tr><td>Youth Employment Initiative Claim Process</td><td colspan="2">Ensure grant claims are made in line with grant terms and conditions.</td><td>Satisfactory</td></tr>
<tr><th>Risk Identified</th><th>Risk Level prior to action implemented</th><th>Action Agreed</th><th>Risk Level after action implemented</th></tr>
<tr><td>Claims submitted may be inaccurate and untimely and supporting documentation may not be available to evidence that he terms and conditions of the grant have been adhered to resulting in funding being withdrawn/financial penalties.</td><td></td><td>Specific testing of Q4 is clearly evidenced, there are written procedures for YEI Project Co-ordinator to carry out sampling, for the YEI Contract Officers when carrying out financial and performance checks and the YEI Admin & Finance Assistants when carrying out data checks. Any financial expenditure that cannot be evidenced on sampling and checking is removed from the transaction list and any performance outcomes /results that cannot be evidenced are also removed. The data is checked by 2 Admin & Finance Assistants before being accepted and added to the data schema.</td><td></td></tr>
</table>

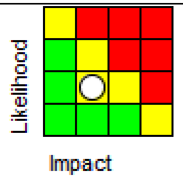
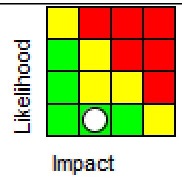
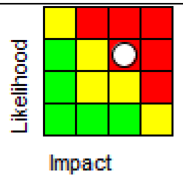
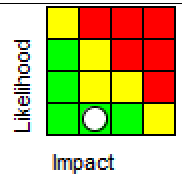
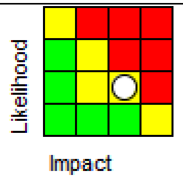
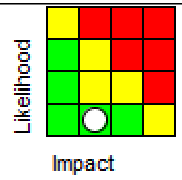
<table>
<tr><th>Audit</th><th colspan="2">Objective</th><th>Assurance Level</th></tr>
<tr><td>Computer Audit – AnyComms System</td><td colspan="2">Ensure controls are working appropriately in respect of User Set up, Access Rights & Deactivation; Passwords; Operating System Access Arrangements; Audit Trail and Data Storage.</td><td>Satisfactory</td></tr>
<tr><th>Risk Identified</th><th>Risk Level prior to action implemented</th><th>Action Agreed</th><th>Risk Level after action implemented</th></tr>
<tr><td>Unauthorised access could be gained to the system resulting in inappropriate access to personal/sensitive information that may be used fraudulently or maliciously.</td><td></td><td>Once CICT receive updates of leavers this will be reviewed against the list of current anycomms users to ensure leavers and those changing roles are removed or amended as appropriate.</td><td></td></tr>
</table>

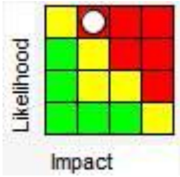
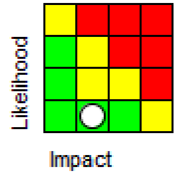
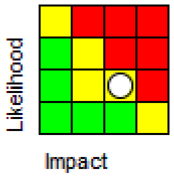
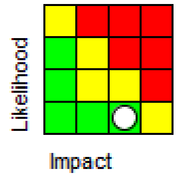
Unauthorised access could be gained to the system resulting in inappropriate access to personal/sensitive information that may be used fraudulently or maliciously.		When the next upgrade of AnyComms is released and approved for deployment at HBC the password expiry policy will be reviewed to see if automated password expiry is available in the next release. If it is available it will be enforced.	

Audit	**Objective**		**Assurance Level**
Social Fund Section 17 Payments	Ensure controls are working appropriately in respect of policy, assessments, expenditure, procurement and budget monitoring.		**Limited**
Risk Identified	**Risk Level prior to action implemented**	**Action Agreed**	**Risk Level after action implemented**
Policies and procedures may not be in place to ensure that legislation and best practice guidance is put into practice and all staff have been informed of and are aware of their roles and responsibilities.		Review the Section 17 Policy.	
Inconsistencies in assessments may lead to complaints and adverse publicity.		A log of all taxi requests will be kept by Admin Team, Anuerin Bevan House. Liaise with passenger transport to review how confirmation is received.	
There is a risk that cash may not be held securely.		A new procedure is now in place: vouchers will be purchased from budget code 17352 and a record will be kept when vouchers are issued and countersigned with copies of paperwork.	

Inconsistencies in assessments may lead to complaints and adverse publicity.		All support documentation for the payments made by the IRT is now on file. The IRT manager now has the appropriate budget codes and expense headers. An agreed frequency of meetings between the IRT manager and the appropriate budget support officer has been organised.	
Payment may be made to the incorrect person or the incorrect items may be provided resulting in the individual's needs not being met.		A new procedure will be put in place to ensure there is a record kept of all Section 17 payments distributed by staff to service users. This will be monitored to ensure that there are signatures for the receipt of payments from the service user. The procedure for escalation of the non returned forms will be included in the Section 17 policy when reviewed.	

Audit	**Objective**		**Assurance Level**
Youth Employment Initiative Qtr 3 Claim	Processes in place ensure grant conditions are adhered to and data submitted relating to the claim is accurate and has supporting evidence.		**Limited**
Risk Identified	**Risk Level prior to action implemented**	**Action Agreed**	**Risk Level after action implemented**
Performance targets may be claimed without sufficient supporting documentation resulting in payment not being received.		This project is not a payment on results project, therefore, performance targets do not affect payment. They are monitored separately to financial expenditure. However, since the internal audit all outcomes claimed from the start of the project have now been re-checked, any that did not have full evidence attached have either been removed or the full evidence has now been provided by the partner. Performance data for Q4 16 claim will have all evidence. Data participant and outcome spreadsheets have been combined into 1 spreadsheet to record all information – this should avoid internal errors where only one spreadsheet was updated.	

The claim may not be submitted within the required timescales leading to business partners not receiving their funding promptly and experiencing cash flow difficulties.		HBC have a timetable of submission deadlines from DWP. HBC has issued a timetable to partners as part of the funding agreements issued. Partner deadlines set give HBC 3 working weeks to prepare and submit each claim. Financial transaction lists are prepared monthly and checked by each partner organisation and then 100% checked by a Contract Officer before the quarterly submission to HBC. On receipt these transaction lists are then 30-40% sampled by the YEI Project Co-ordinator before submitting a final claim to DWP.	
Expenditure and performance may be claimed without sufficient supporting documentation resulting in the full value not being re-imbursed or a delay in the income being received leading to cash flow problems for partnering organisations.		All evidence is held at partner organisations premises in a financial file and is audited on a monthly basis. YEI Project Co-ordinator carries out sampling via Anycomms (secure e-mail) and then electronically saves evidence on HBC server. DWP also carry out a further sampling of all claims received prior to any payments being made. Any issues with sampling would result in HBC carrying out a 100% audit at the organisations premises.	
Expenditure and performance may be claimed without sufficient supporting documentation resulting in the full value not being re-imbursed or a delay in the income being received leading to cash flow problems for partnering organisations.		There is a formal YEI Steering Group including members from all Tees Valley LAs, JC+, DWP, New College Durham, Tees Valley Combined Authority. Draft Terms of Reference have been provided and have been issued to members of the Steering Group for signature and return at the next meeting in March 16. Monthly Contract Monitoring Reports are produced by each Contract Officer for their partners and is available to all Steering Group Members. Quarterly reports on performance and financial expenditure are produced for return to DWP with each claim. Monthly meetings between the Programme Manager Patrick Wilson and the Project Co-ordinator Julie Seymour have been diarised to discuss performance and spend and Patrick Wilson will feed this up to Director level and share with Elected Members.	

<table>
<tr><th>Audit</th><th colspan="3">Objective</th><th>Assurance Level</th></tr>
<tr><td>Youth Employment Initiative Qtr 4 Claim</td><td colspan="3">Processes in place ensure grant conditions are adhered to and data submitted relating to the claim is accurate and has supporting evidence.</td><td>Satisfactory</td></tr>
<tr><th colspan="2">Risk Identified</th><th>Risk Level prior to action implemented</th><th>Action Agreed</th><th>Risk Level after action implemented</th></tr>
<tr><td colspan="2">Expenditure and performance may be claimed without sufficient supporting documentation resulting in the full value not being re-imbursed or a delay in the income being received leading to cash flow problems for partnering organisations.</td><td></td><td>The Q4 17 Pathways claim has been authorised for payment by DWP who are satisfied with the submission. However, moving forward we will use the 7.40 hrs per day calculation which will ensure that claims sent in will avoid any potential over claim.</td><td></td></tr>
<tr><td colspan="2">Income may not be promptly and accurately received by HBC as Accountable Body and paid accurately and promptly to partners.</td><td></td><td>At the time of audit the Q3 payment requisitions had been prepared and were available for inspection. We were waiting for an e-mail from finance to confirm payment had been received from DWP before paying out approx £800K to partners (on previous occasions we had received an e-mail confirming receipt of the grant funding). DWP now send an e-mail to the YEI team confirming authorisation of the claim and quote receipt within 10 working days, therefore, the YEI Project Co-ordinator or Contract Officer will keep a check on the YEI budget after receipt of the DWP e-mail thus reducing the risk of not paying promptly. These Purchase Orders were raised immediately Internal Audit alerted us to receipt and I confirmed with corporate finance that the grant funding had been received.</td><td></td></tr>
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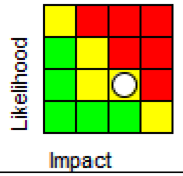
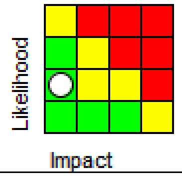
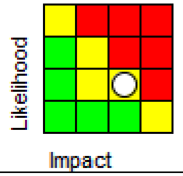
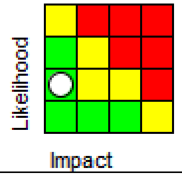
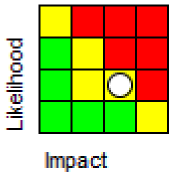
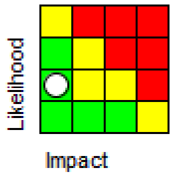
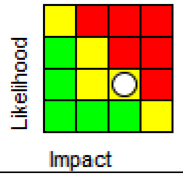
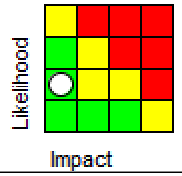
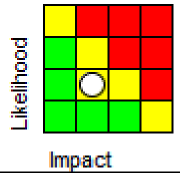
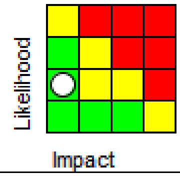
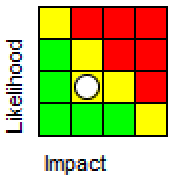
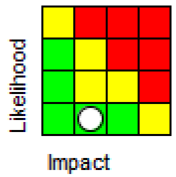
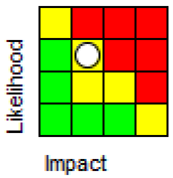
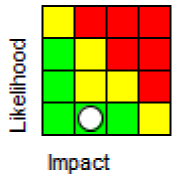
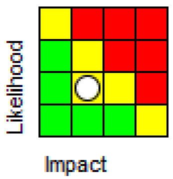
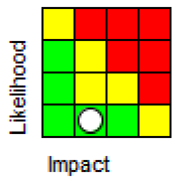
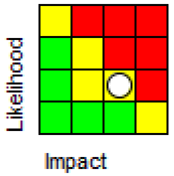
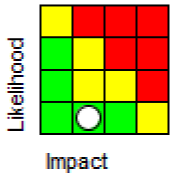
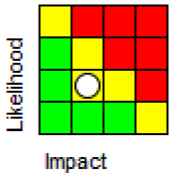
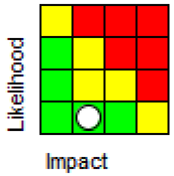
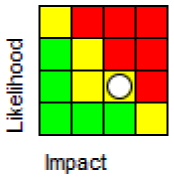
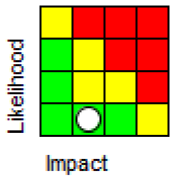
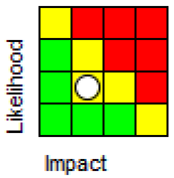
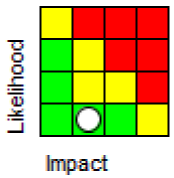
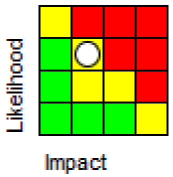
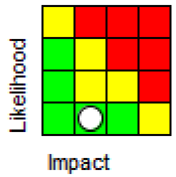
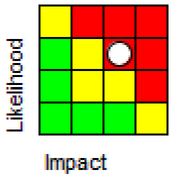
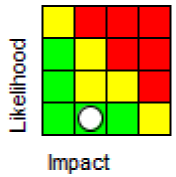
Audit	Objective	Assurance Level
Day Centres	To ensure effective arrangements are in place for Client personal spends, Income, Health & Safety, HR, Security, Petty Cash and inventories.	**Limited**

Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Client Users monies me be misappropriated.		Second Admin person to check and sign all user monies incoming & outgoing, monthly checks to take place by Senior Co-ordinators of users spends incoming & outgoing.	
Reconciliations of Income are not prepared on a regular basis to detect any errors or omissions.		Second Administrator signature/check to take place on client spends.	
Reconciliations of Income are not prepared on a regular basis to detect any errors or omissions.		Admin to check amount of client spends once a month and notify Senior Co-ordinators of any monies over £20 (in multiple of £5 pounds), Parent/Carer will then be contacted requesting they collect the money from the Admin Team, a receipt will be signed by person handing the monies over and the person collecting monies.	
No assurance can be placed on the physical assets if inventories are not maintained.		Senior Co-ordinators to provide inventory of specialist equipment within the Building, i.e. hoists, changing beds, light & sound etc. Auditor will undertake review.	

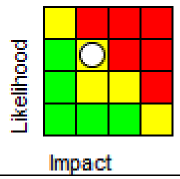
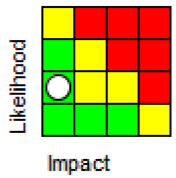
Reconciliations of Income are not prepared on a regular basis to detect any errors or omissions.		Work ongoing for Procedures around Daily Registers, Administration of Income, Client personal spends and Petty Cash. Monthly Checks to take place by senior co-ordinators.	

Audit	**Objective**		**Assurance Level**
School Catering	Ensure cash collection arrangements, purchasing and stock control are adequate.		**Limited**
Risk Identified	**Risk Level prior to action implemented**	**Action Agreed**	**Risk Level after action implemented**
Existing procedures may not provide effective controls to manage the risks within the cash collection processed and staff may not adhere to instructions given, resulting in loss of income.		Procedures have been reiterated to ensure all keys are kept securely in the safe until they are needed to retrieve monies from the revalue machines. Signing sheets were already in place from September 2015 for when these keys were to be collected and by whom. Visual inspections of key holding arrangements will be incorporated into the new site inspection checklist.	
Existing procedures may not provide effective controls to manage the risks within the cash collection processes and staff may not adhere to instructions given, resulting in loss of income.		Procedure in place for schools to be able to authorise loans where needed to pupils through a hospitality card. The responsibility will then be on the school to retrieve any monies owed by the pupils. This process was already in place in two schools and the third school will follow this process from April 2017. Review of the operation of this procedure will be incorporated into the new site inspection checklist.	
Existing procedures may not provide effective controls to manage the risks within the cash collection processes and staff may not adhere to instructions given, resulting in loss of income.		Existing procedure in place for staff to access the revalue machines keys. Safe keys are kept by the school cook only at all times and not left unattended and a second Key is to be kept by management. Those kitchens that do not have a spare key to pass to management, an extra is to be made in case of sickness absence by the cook.	

Without effective monitoring arrangements across all schools management will not have ongoing assurance that agreed processes are adhered to and controls are effectively managing the risks.		A new formal programme of inspection visits to schools has been prepared and agreed with the Strategic Policy & Facilities Management Manager. All establishments will be inspected at regular intervals throughout the year. Checklists covering menu, training and admin/ financial procedures will be used to guide the inspections. Each monitoring visit will be unannounced. An inspection report will be produced for each visit detailing the extent to which compliance with procedures is occurring and other findings, potential risks and recommended actions will also be shown. These reports will be formally reviewed and signed off by senior FM service management. The service is also looking at how it can increase capacity for advising, supporting and mentoring catering staff to implement recommended improvements and generally maintain and improve efficient and effective working practices in school kitchens.	
Without effective monitoring arrangements across all schools management will not have ongoing assurance that agreed processes are adhered to and controls are effectively managing the risks.		Single procedure files have been printed for all establishments and contain all procedure notes for staff. Updates will be sent to staff when required. Monitoring of storage and use of the information on these files will come under the identified process of inspections at point	
Stock may not be adequately controlled resulting in loss of items, high waste levels, insufficient items available to produce the menu.		Clear process will be issued to all Cooks on recording of waste. Weekly procedure of checking waste returns will be carried out by management. Monitoring of the correct completion of waste reporting will form part of the new inspection regime described in point	
Stock may not be adequately controlled resulting in loss of items, high waste levels, insufficient items available to produce the menu.		Cooks issued at meeting in January 2017 with a list of stock check dates that information needed to be returned to management via email. New updated stock sheets were issued to cooks to ensure accurate pricing was achieved. Management will review pricing in stock sheets on a termly basis to ensure accuracy. Monitoring of correct stock check reporting will come under the	

		identified process of inspections at point.	
Existing procedures may not provide effective controls to manage the risks within the cash collection processes and staff may not adhere to instructions given, resulting in loss of income.		Cash drawer fitted to cashless system in December 2016 this new system allows visitors to pay for items outside of the normal school working day. This is now fully traceable and audited through the computer cashless system. Staff were trained further on the banking procedures. Visual inspection of cash handling and storage is included on the relevant checklist and will be carried out as part of the monitoring visits.	
Without effective monitoring arrangements across all schools management will not have ongoing assurance that agreed processes are adhered to and controls are effectively managing the risks.		The new procedures outlined will improve monitoring and ensure risks are effectively managed.	

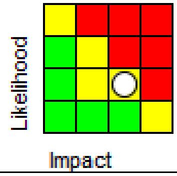
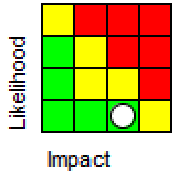
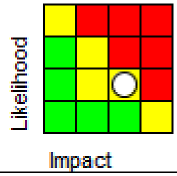
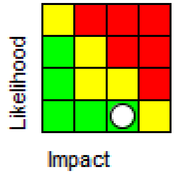
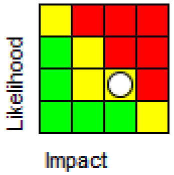
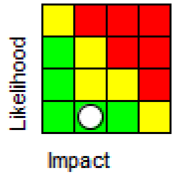
Audit	**Objective**	**Assurance Level**
Computer Audit – ResourceLink System	Ensure controls are working appropriately in respect of User Set up, Access Rights & Deactivation; Passwords; Operating System Access Arrangements; Audit Trail and Data Storage.	**Satisfactory**

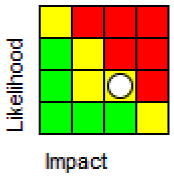
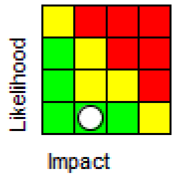
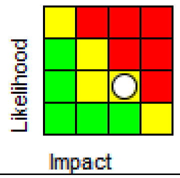
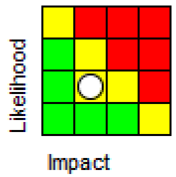
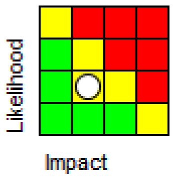
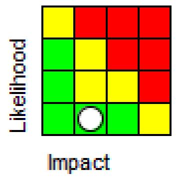
Risk Identified	**Risk Level prior to action implemented**	**Action Agreed**	**Risk Level after action implemented**
Data may be lost or corrupted or made available to unauthorised people.		Shared Services will develop its document retention policy in line with the corporate guidance across all systems within the sections areas of responsibility. Shared Services Manager will liaise with Legal Services to establish plans and timescales and agree an implementation plan.	

Audit	Objective	Assurance Level
Payroll	Ensure controls are working appropriately and all legislative requirements are adhered to.	**Satisfactory**

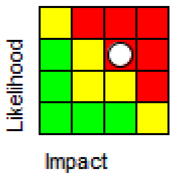
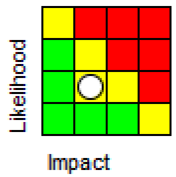
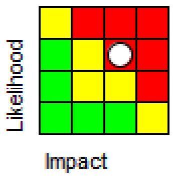
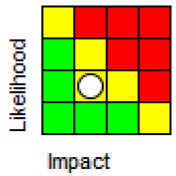
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
No unmitigated risk identified.			

Audit	Objective	Assurance Level
Adult Education	Ensure adequate controls operate in respect of performance management, budgetary control, data retention, data security and income collection.	**Limited**

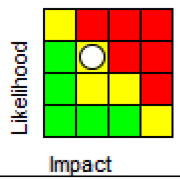
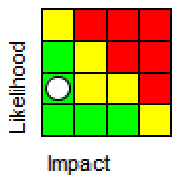
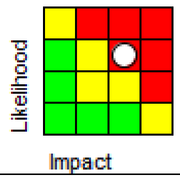
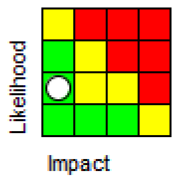
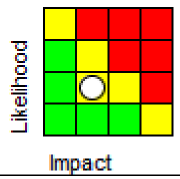
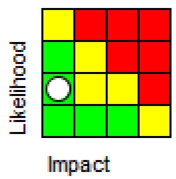
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Non compliance with data retention guidance for the funding received.		Adult Education will fully adhere to Grant provision requirements.	
Non compliance with SFA and EFA funding arrangements for Adult Education resulting in clawback of funding.		Adult Education has implemented a new enrolment control system that will ensure that the full enrolment form is completed, checked and verified by internal staff, prior to entry onto the PLUS system.	
Performance management figures may be inaccurate/untimely resulting in poor quality decision making.		Adult Education has now produced a RARPA policy and has embedded a process whereby management meet on a quarterly basis to review a learner's individual learning plan to ensure that they are working towards, and have completed, the non-accredited course. Learner work for non accredited courses is now part of our internal verification system. Through the completion of the ILP, tutors will be able to effectively record that	

		the learner has completed their non-accredited course objectives, which will be reported on the tutor assessment sheet.	
Performance management figures may be inaccurate/untimely resulting in poor quality decision making.		There is now 100% check of all learners who have completed AE courses to clarify whether they have gone into positive outcomes i.e. moved into employment, further education or training. In 2016/2017 a new recording system has been implemented and is now in place. The positive outcome rate will now tally with the spreadsheet and therefore the positive numbers will tally with the positive outcome percentage rate on the data dashboard.	
Performance management figures may be inaccurate/untimely resulting in poor quality decision making.		There is a new tender in place to update the current MIS system.	
Without adequate controls all income due to the authority may not be received or promptly and accurately recorded.		Both till receipts are now produced and filed in date order. Cash banking is checked by 2 staff and both staff sign to evidence that this has taken place. An income recording book will be set up in the next week to record details of cash banking and the date that it has been collected. Learners who qualify for a free course (i.e. in receipt of benefit) will continue to be entered through the till and 'minused' down as this will show that no fee has been taken.	

Audit	Objective	Assurance Level
Members Allowances	Ensure that policies/procedures are consistent with legislation and best practice have been drawn up, formally adopted are reviewed on a regular basis and have been distributed to all staff; that payments made in respect of allowances and expenses incurred are paid in accordance with the rates approved by Council and the Independent Remuneration Panel and are bona fide and records are maintained in a secure manner to enable claims to be validated and that allowances and expenses are published in line with legislative requirements.	**Satisfactory**

Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Reputational damage to the Council and/or individuals if allowances are not paid in accordance with agreed scales or are not bona fide.		Members' Services will continue to issue the reminder to all councillors every other month. Any delayed submission of claim will be considered on an individual basis and if required will be escalated to Chief Solicitor/Director of Finance & Policy for approval.	
Non compliance with the Local Authorities (Members Allowances) (England) Regulations.		The Members Allowance Scheme is fully published via Part 6 of the Constitution (page 8) which is available to the public on the HBC website. The full analysis of Councillors allowances and Expenses paid is also published via the Statement of Accounts (SoA) page 37-39 in the 2015/16 SoA. This is also fully accessible via the HBC website. This is published and updated in both areas each year. We will however comply with the recommendation going forward.	

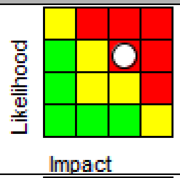
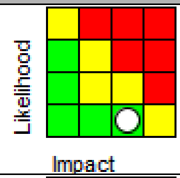
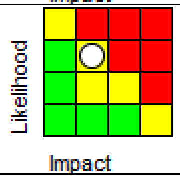
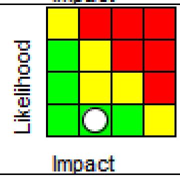
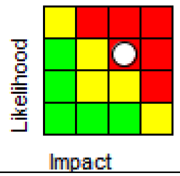
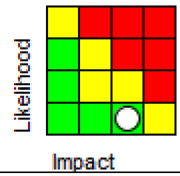
Audit	Objective	Assurance Level
Computer Audit – Mobile Devices	Ensure that adequate policies/procedures are in place to safeguard HBC assets.	**Satisfactory**

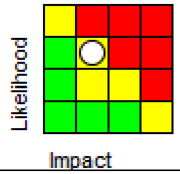
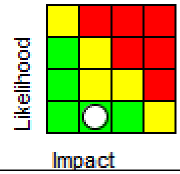
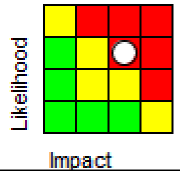
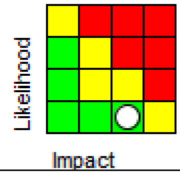
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Without adequate policy/guidelines in place to control the service, users are not aware of their responsibilities and any restrictions to use.		Declaration forms will be used for this point forward.	
Inventory lists for mobile phones have not been kept up to date and is not accurate which may result in the inability to identify mobile phone misuse and/or the continuing need of mobile phones.		Inventory records will be brought up to date and staff made aware of the need to contact CICT with any changes to handset/user.	
Inventory lists for mobile phones have not been kept up to date and is not accurate which may result in the inability to identify mobile phone misuse and/or the continuing need of mobile phones.		Discuss with corporate contact manager and confirm all phones over the standard rate are purchased via CICT.	

Audit	Objective	Assurance Level
Cash/Bank System	Ensure that adequate policies/procedures are in place in relation to security, cash (and other income) collection and posting, banking, reconciliations, over/under bankings, encashment, suspense account and bounced/unpresented cheques.	**Satisfactory**

Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
No unmitigated risk identified.			

Audit	**Objective**		**Assurance Level**
Benefits	Ensure that adequate policies/procedures are in place in relation to administration of the service, claims processing, arrangements for processing changes in claimant's circumstances, payments and the prevention / detection of fraud.		**Satisfactory**
Risk Identified	**Risk Level prior to action implemented**	**Action Agreed**	**Risk Level after action implemented**
No unmitigated risk identified.			

Audit	**Objective**		**Assurance Level**
Car Parking	Income received in respect of car parking is collected on a regular basis and banked fully in a prompt manner. Arrangements in place ensure that all income is fully accounted for and accurately processed.		**Limited**
Risk Identified	**Risk Level prior to action implemented**	**Action Agreed**	**Risk Level after action implemented**
Income may not be received in the event of machine breakdown.		The request to restore the connection to PD machines is followed up so that breakdowns can be identified promptly and rectified.	
Income may not be fully received if effective arrangements are not in place to monitor the collection and banking of cash from pay and display machines.		Monitoring of collections is undertaken and agreed schedules enforced.	
There may be no means of ensuring that all income collected is received and banked if reconciliation is not performed.		The contractor should be required to provide details of dates income is collected with bankings to enable reconciliation to be performed more easily.	

There may not be valid reasons for any differences in cash recorded and received. Income may be misappropriated and go unnoticed without adequate checks.		Reasons for differences between cash readings and income collected should be obtained from the contractor and recorded on daily cash collection sheets.	
It may be difficult to reconcile income received if income analysis sheets are not recorded in a prompt manner.		Records are maintained of when daily cash collection sheets are obtained so that income analysis sheets can be promptly completed to aid reconciliation to bankings.	

Audit	**Objective**	**Assurance Level**
Better Care Fund	Ensure that there is an appropriate governance framework in place.	**Satisfactory**

Risk Identified	**Risk Level prior to action implemented**	**Action Agreed**	**Risk Level after action implemented**
No unmitigated risk identified.			

AUDIT AND GOVERNANCE COMMITTEE

19 July 2017

HARTLEPOOL BOROUGH COUNCIL

Report of: Director of Finance and Policy

Subject: LOCAL AUDIT AND ACCOUNTABILITY ACT UPDATE

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1. PURPOSE OF REPORT

1.1 To update Members on progress in relation to the application of the Local Audit and Accountability Act.

2. BACKGROUND

2.1 In August 2010 the Government announced its intention to disband the Audit Commission, transfer the work of the Audit Commission's in-house practice to the private sector and put in place a new local audit framework. In this framework, local bodies would be able to appoint their own auditors from an open and competitive market. The Audit Commissions last task was to appoint a new external auditor for the Council on 01.09.12. The contract was initially for a period of three years then extended to five years.

2.2 In January 2014, the Local Audit and Accountability Act received Royal Assent. It was agreed to update the Audit and Governance Committee on the arrangements in place to ensure that Council complies with the requirements of the Act. This report provides an update to members in relation to the arrangements for appointing external auditors.

3. APPOINTMENT OF EXTERNAL AUDITORS

3.1 It was agreed at the meeting held on 28 April 2016 that the Audit and Governance Committee supported the Council becoming an "opted in" Authority and the Local Government Association (LGA) were subsequently informed of this decision. This was in order to benefit from collective buying power and the removal of the requirement to undertaken its own tendering process to secure future external audit services.

3.2 The LGA has successfully lobbied for the legislation to include provision for the establishment of a sector-led body called Public Sector Audit Appointments Ltd (PSAA). It will be the job of PSAA to procure future external audit contracts. This can be seen as a positive outcome for the Committee as it also lobbied the Department of Communities and Local Government (DCLG) through the consultation period for these national procurement arrangements to be adopted.

3.3 At its meeting of the 22 September 2016 the Audit and Governance Committee agreed to support the Council becoming an "opted in" Authority giving a firm commitment to PSAA that the Council will join the scheme during autumn 2016. This action was undertaken and the window for applications to join PSAA's national scheme for auditor appointments closed in March.

3.4 The PSAA has announced that the response to the invitations to 492 eligible local bodies have resulted in 483 bodies - more than 98% - opting to become members of the scheme. PSAA have stated that they are aware of the weight of sector expectation of such an overwhelmingly positive response and are determined to live up to them. PSAA are committed to put in place arrangements which assure the provision of quality audit services by qualified suppliers at affordable fee scales.

3.5 The results of the process were announced on 20 June 2017 and involve the awarding of the following contracts:

- Lot 1 (value: approx. £14.4 million per audit year) awarded to Grant Thornton LLP;
- Lot 2 (value: approx. £10.9 million per audit year) awarded to EY LLP;
- Lot 3 (value: approx. £6.6 million per audit year) awarded to Mazars LLP;
- Lot 4 (value: approx. £2.2 million per audit year) awarded to BDO LLP;
- Lot 5 (value: approx. £2.2 million per audit year) awarded to Deloitte LLP;
- Lot 6 (value not pre-determined) awarded to a consortium of Moore Stephens LLP and Scott-Moncrieff LLP.

These contracts will cover a five year period commencing with the audit of accounts for 2018/19. PSAA has an option to extend the contracts for a further two year period, to a total of seven years, if it chooses to do so. Steve Freer, Chairman of PSAA, stated: *"We are delighted by the results of the tender process and the appointment of six experienced and well respected firms. At the outset our objectives included maintaining high standards of audit quality and attracting very competitive prices. We are extremely pleased by the outcomes on both criteria. The process has also encouraged firms to think creatively* *about opportunities to achieve social value benefits. As a result it is clear that the contracts awarded will lead to the creation of 400 new finance apprenticeships".* Aggregate savings are expected to exceed £6m per annum, equivalent to a reduction of approximately 18% in the scale of fees currently payable by local authorities.

3.6 To date PSAA have worked in a very productive relationship with a panel of sector stakeholders. The panel has acted as a sounding board and given extremely helpful feedback and guidance on their emerging plans. PSAA have stated that looking ahead, they want to build on the foundations recognising that PSAA, local bodies (through their audit committees) and appointed auditors have complementary responsibilities to help ensure that audits are undertaken effectively to a high standard and in a manner which facilitates local public accountability.

3.7 In the immediate future PSAA will be addressing a number of issues. These include:

1. Undertaking the consultation process which will precede the appointment of auditors to individual scheme member authorities. They are committed to ensuring that all appointments are made before the statutory deadline of 31 December, 2017.

2. Undertaking a further consultation process, commencing in October 2017, leading to the approval of fee scales for audits of the 2018/19 accounts, the first year of the national scheme's operation.

3.8 PSAA plan to provide information to assist bodies in relation to other aspects of the new local audit landscape. For example, with effect from 2018/19 there is no provision in legislation for PSAA to make arrangements for housing benefit subsidy certification work on behalf the Department of Work and Pensions. PSAA are committed to assisting the DWP to develop appropriate successor arrangements in this area and ensuring that this transition is handled as effectively and seamlessly as possible. We are also aware of this development and are confident we can address any issues that arise once we are aware of who will be providing our external audit.

4. RISK IMPLICATIONS

4.1 Participation in the national procurement organised by PSAA will reduce the risk that the Council would face higher external costs, or may not be able to appoint its own external audit at a time when audit firms will be concentrating on securing PSAA contracts, or contracts from larger authorities.

5. FINANCIAL CONSIDERATIONS

5.1 In order to prove the Council meets its duty of providing best value, the most appropriate procurement method must be used to provide external audit services. The current method of a centralised collective purchase arrangement has led to the Council paying 55% less for external audit than in 2011/12 (even before taking into account inflation). The savings that the Council has made have been taken as part of the MTFS and used to partly offset the impact of Government grant cuts.

5.2 It is anticipated that the national PSAA procurement will secure best value in relation to future external audit contracts. Once the value of the recurring 2018/19 savings is know details will be reported to Members and the saving reflected in the 2018/19 MTFS.

6. LEGAL CONSIDERATIONS

6.1 The Council has a legal duty to ensure it has an annual external audit of its accounting records and financial statements.

7. CHILD AND FAMILY POVERTY CONSIDERATIONS

7.1 There are no child and family poverty considerations.

8. EQUALITY AND DIVERSITY CONSIDERATIONS

8.1 There are no equality and diversity considerations.

9. STAFF CONSIDERATIONS

9.1 There are no staff considerations.

10. ASSET MANAGEMENT CONSIDERATIONS

10.1 There are no asset management considerations.

11. RECOMMENDATIONS

11.1 It is recommended that Members note the contents of the report and that further update reports will be submitted on the implementation of arrangements to comply with the Local Audit and Accountability Act.

12. REASON FOR RECOMMENDATIONS

12.1 To ensure that the Audit and Governance Committee is kept up to date with all issues that are relevant to the pursuance of its remit.

12.2 To ensure that the Council has in place arrangements to procure the best possible external audit service at the most competitive price by benefiting from collective buying power.

13. BACKGROUND PAPERS

13.1 Local Audit and Accountability Act.
Local Audit (Appointing Persons) Regulations 2015.
Audit Committee Report 28 April 2016.
PSAA Prospectus.

14. CONTACT OFFICER

14.1 Chris Little
Director of Finance and Policy
Civic Centre
Victoria Road
Hartlepool
TS24 8AY
Tel: 01429 523003
Email: chris.little@hartlepool.gov.uk

AUDIT AND GOVERNANCE COMMITTEE

19 July 2017

HARTLEPOOL BOROUGH COUNCIL

Report of: Assistant Director, Finance and Customer Services

Subject: LETTER TO THOSE CHARGED WITH GOVERNANCE - COMPLIANCE WITH LAWS AND REGULATIONS / FRAUD

1. PURPOSE OF REPORT

1.1 To inform Members of the proposal to reply to the report received from the Director and Engagement Lead of our External Auditor, Mazars, to those charged with governance regarding compliance with laws and regulations and fraud.

2. BACKGROUND

2.1 In carrying out the annual accounts audit, Mazars have to demonstrate compliance with International Standards for Auditing (UK and Ireland). The Standard requires Mazars to gain each year, an understanding of how the Committee exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

2.2 Mazars must also gain a general understanding of the legal and regulatory framework applicable to the audited body and how the audited body is complying with that framework. After gaining a general understanding auditors need to undertake audit procedures to help identify instances of non-compliance with those laws and regulations where this impacts on preparing the financial statements. This includes:

- Enquiring of management whether they have complied with all relevant laws and regulations;
- Written representation from management that they have disclosed to the auditor all known actual or possible areas of non-compliance; and
- Enquiring with "those charged with governance" whether they are aware of any possible instances of non-compliance.

3. AUDIT AND GOVERNANCE COMMITTEE RESPONSE

3.1 Attached as Appendix A is a letter to Mazars from the Chair of the Committee detailing how the committee has complied with the requirements of International Standards for Auditing.

4. RISK IMPLICATIONS

4.1 There is a risk that Members of the Audit and Governance Committee do not receive the information needed to enable a full and comprehensive review of governance arrangements at the Council, leading to the Committee being unable to fulfil its remit.

5. FINANCIAL CONSIDERATIONS

5.1 There are no financial considerations.

6. LEGAL CONSIDERATIONS

6.1 There are no legal considerations.

7. CHILD AND FAMILY POVERTY CONSIDERATIONS

7.1 There are no child and family poverty considerations.

8. EQUALITY AND DIVERSITY CONSIDERATIONS

8.1 There are no equality and diversity considerations.

9. STAFF CONSIDERATIONS

9.1 There are no staff considerations.

10. ASSET MANAGEMENT CONSIDERATIONS

10.1 There are no asset management considerations.

11. RECOMMENDATION

11.1 It is recommended that Members agree the contents of the letter to Mazars outlining how the activities of the Committee comply with the requirements of International Standards for Auditing.

12. REASON FOR RECOMMENDATIONS

12.1 To ensure that in order for Mazars to comply with legislative requirements, those charged with governance supply the requested information.

13. BACKGROUND PAPERS

13.1 Letter to Those Charged With Governance - Compliance with Laws and Regulations/ Fraud

14. CONTACT OFFICER

14.1 John Morton
Assistant Director, Finance and Customer Services
Civic Centre
Victoria Road
Hartlepool
T24 8AY

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Email: John.Morton@hartlepool.gov.uk

Appendix A

Cllr Ray Martin-Wells
Audit and Governance Committee Chair
Civic Centre
Hartlepool
TS24 8AY

Tel: 01429 266522
www.hartlepool.gov.uk
Our Ref:
Your Ref:

19.07.17

Cameron Waddell,
Partner,
Mazars
Rivergreen Centre,
Aykley Heads,
Durham,
DH1 5TS.

Dear Cameron,

Further to your report to those charged with governance – Request for Declarations; in relation to understanding how Mazars gains assurance from management, I have outlined below in the answers to the questions posed, how the Audit and Governance Committee exercise oversight of the processes in place to prevent and detect fraud and gains assurance that all relevant laws and regulations are complied with.

1) Questions about arrangements for preventing and detecting fraud

As the Audit and Governance Committee we review the Councils Financial Statements and take advice from both officers' internally and externally regarding the accounting statements and processes in place to ensure they are a true and fair view of the Council's financial position. We are regularly updated in relation to issues regarding potential fraud and review and approve the Councils Anti Fraud and Corruption Strategy. The Audit and Governance Committee review and approve the Councils Code of Corporate Governance and also the Councils Risk Management Strategy. As an independent committee of the Council, the Audit and Governance Committee can at any time seek explanation from any officer of the Council regarding issues it considers.

The Committee is not aware of any entries made in the accounting records of the authority that we believe or suspect are false or intentionally misleading. We do not believe any assets, liabilities or transactions have been improperly included or omitted from the accounts of the Authority. The Committee takes assurance from both its internal and external audit coverage of the Councils accounting records and is satisfied that sufficient checks and balances are in place.

We considered Internal Audit Plan 2016/17 Updates*.* Four of these reports were reviewed by the committee during the year which allowed members to be kept up to date with the ongoing progress of the Internal Audit section in completing its annual audit plan. These reports allowed the committee to review the outcomes of all completed internal audit reports and comment upon any areas of concern. As a Committee we are not aware of any breaches of internal control during 2016-17, and will consider those significant governance issues highlighted in the Annual Governance Statement in the context of our knowledge and understanding of the Council over the financial year.

The Committee is aware of fraud perpetrated against the Council in respect of benefit claims. The Committee does not suspect fraud may be occurring in other areas within the Authority and is satisfied that adequate arrangements are in place to tackle suspected fraud.

The Committee is satisfied that the Council has adequate governance arrangements in place in relation to its internal control environment and gains assurance from the work of its internal and external auditors.

The Council has a well established and publicised Whistleblowing Policy in place as well as an up to date Anti Fraud and Corruption plan. Employees are expected to report all instance of suspected fraud and corruption and are encouraged to do so.

The Committee is not aware of any related party relationships or transactions that could give rise to instances of fraud. The Committee is assured that adequate arrangements are in place for the recording and declaration of any relationships or interests that may raise cause for concern.

2) Questions about arrangements for complying with law and regulations responsibilities

As detailed above we considered Internal Audit Plan 2016/17 updates. Four of these reports were reviewed by the committee during the year which allowed members to be kept up to date with the ongoing progress of the Internal Audit section in completing its annual audit plan. These reports allowed the committee to review the outcomes of all completed internal audit reports and comment upon any areas of concern.

Members of the Audit and Governance Committee are active in other areas of Council activity and bring that knowledge and experience to the Audit and Governance Committee in relation to the Councils operation. The Audit and Governance Committee reviews performance and risk management arrangements in place through the work of Internal Audit and other reports received and is not aware of any non compliance with relevant laws or regulations during 2016-17.

The Committee is not aware of any new significant litigation or claims or changes to any existing litigation / claim that would affect the financial statements.

3) Questions about the appropriateness of the going concern assumption

Having reviewed the reports and information provided to the Committee over the course of the year, including reviewing the Councils Financial Statements and Annual Governance Statement, the Committee has no significant doubt as to the Councils ability to continue as a going concern.

In addition to those processes and procedures detailed above, the Committee has also considered the information outlined below:

- *Considered the 2016/17 Internal Audit Plan* – This informed the committee of the direction of Internal Audit activity and sought approval of the annual operational Internal Audit Plan for 2016/17. It also provided accountability for internal audit services allowing the committee to monitor the application of the delegated authority for ensuring an effective and satisfactory internal audit function in accordance with the Accounts and Audit Regulations 2015 and UK Public Sector Internal Audit Standards.
- *Reviewed the Internal Audit Outcome Report 2016/17* – This provides accountability for internal audit delivery and performance and allowed the committee to monitor the application of the delegated authority for ensuring an effective and satisfactory Internal Audit function in accordance with the Accounts and Audit Regulations 2015 and UK Public Sector Internal Audit Standards.
- *Treasury Management Strategy 2017/18* – To enable the Audit and Governance Committee to consider the proposed Treasury Management Strategy for 20172018 prior to the strategy being referred to Council in February 2017.
- *Review of External Auditor Reports.*

There have been no significant issues raised with the Audit and Governance Committee during the year that cast doubt on financial assumptions made when forming a view on the going concern assumption.

The Committee considers those posts dealing with all aspects of procurement and cash handling to high risk in relation to ongoing assumptions made. The Committee takes assurance from the fact that risk assessment of posts is undertaken and training is provided to staff and that the Council has sufficiently skilled and experienced staff to deliver the Councils objectives.

The Committee takes assurance from the governance arrangements the Council has in place and the independent assurance it receives over the course of the year that these arrangements are working in practice.

Yours Faithfully

Cllr Ray Martin-Wells
Audit and Governance Committee Chair

AUDIT AND GOVERNANCE COMMITTEE

19 July 2017

HARTLEPOOL BOROUGH COUNCIL

Report of: Statutory Scrutiny Officer

Subject: CARE QUALITY COMMISSION - CONSULTATION ON THE NEXT PHASE OF REGULATION

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1. PURPOSE OF REPORT

1.1 To provide information on the Care Quality Commission's (CQC) consultation regarding their next phase of regulation (Consultation 2).

2. BACKGROUND INFORMATION

2.1 The Care Quality Commission (CQC) is the independent regulator of all health and social care services in England. The CQC register, monitor and inspect services to make sure they provide safe, effective, compassionate, high quality care, and they encourage them to improve. In June the CQC launched its consultation on their next phase of regulation.

2.2 This is the second in a series of three consultations aimed at simplifying and strengthening the way the CQC regulate. The CQC are proposing changes to how they regulate adult social care and primary medical services; changes which will help them to use information more effectively so they can target inspections in services where there is greatest risk to the quality and safety of care.

2.3 The consultation document 'Our next phase of regulation: primary medical care services and adult social care services' is attached at Appendix 1.

2.4 The CQC are seeking views on:

- regulating primary medical services and adult social care services
- improving the structure of registration, and clarifying the definition of registered providers
- monitoring, inspecting and rating new models of care and large or complex providers
- using CQC's unique knowledge to encourage improvements in the quality of care in local areas

- carrying out CQC's role in relation to the fit and proper persons requirements

2.5 The proposals explain how the CQC will combine their approaches and work together where providers are delivering services across the hospital, primary care or adult social care sectors. The CQC will also continue to work and learn with services as they change and adopt innovative ways of providing care.

2.6 The consultation questions are as follows:-

PART 1: REGULATING IN A COMPLEX CHANGING LANDSCAPE

1.1 Clarifying how we define providers and improving the structure of registration

1a What are your views on our proposal that the register should include all those with accountability for care as well as those that directly deliver services?

1b What are your views on our proposed criteria for identifying organisations that have accountability for care (see page 12)?

2 We have suggested that our register show more detailed descriptions of services and the information we collect. What specific information about providers should be displayed on our register?

1.2 Monitoring and inspecting new and complex providers

3a Do you agree with our proposals to monitor and inspect complex providers that deliver services across traditional hospital, primary care and adult social care sectors? [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

3b Please explain the reasons for your response.

1.3 Provider-level assessment and rating

4a Do you agree that a provider-level assessment in all sectors will encourage improvement and accountability in the quality and safety of care? [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

4b What factors should we consider when developing and testing an assessment at this level?

1.4 Encouraging improvements in the quality of care in a place

5a Do you think our proposals will help to encourage improvement in the quality of care across a local area? [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

5b How could we regulate the quality of care services in a place more effectively?

PART 2: NEXT PHASE OF REGULATION

2.1 Primary medical services

6a Do you agree with our proposed approach to monitoring quality in GP practices? [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

6b Please give reasons for your response.

7a Do you agree with our proposed approach to inspection and reporting in GP practices? [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

7b Please give reasons for your response.

8a Do you agree with our proposal to rate population groups using only the effective and responsive key questions? (Safe, caring, and well-led would only be rated at practice level.) [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

8b Please give reasons for your response.

9a Do you agree with our proposal that the majority of our inspections will be focused rather than comprehensive? [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

9b Please give reasons for your response.

10a Do you agree with our proposed approach for regulating the following services?

i. Independent sector primary care [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

ii. NHS 111, GP out-of-hours and urgent care services [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree] Our next phase of regulation: Consultation 2 60

iii. Primary care delivered online [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

iv. Primary care at scale [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

10b Please give reasons for your response (naming the type of service you are commenting on).

2.2 Adult social care services

11a Do you agree with our proposed approach to monitoring quality in adult social care services, including our proposal to develop and share the new provider information collection as a single shared view of quality? [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

11b Please give reasons for your response.

12a Do you agree with our proposed approach to inspecting and rating adult social care services? [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

12b Please give reasons for your response.

13a Do you agree with our proposed approach for gathering more information about the quality of care delivered to people in their own homes, including in certain circumstances announcing inspections and carrying out additional fieldwork? [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

13b Please give reasons for your response.

14a Do you agree with our proposed approach for services which have been repeatedly rated as requires improvement? [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

14b Please give reasons for your response.

PART 3: FIT AND PROPER PERSONS REQUIREMENT

15a Do you agree with the proposal to share all information with providers? [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

15b Do you think this change is likely to incur further costs for providers?

16 Do you agree with the proposed guidance for providers on interpreting what is meant by “serious mismanagement” and “serious misconduct”

2.8 The deadline for responses for the consultation is 8 August 2017.

3. RECOMMENDATIONS

3.1 That the Audit and Governance Committee consider the consultation document and questions and formulate a response to the consultation.

4. BACKGROUND PAPERS

4.1 The following background paper was used in the preparation of this report:-

1) Care Quality Commission - Our next phase of regulation - http://www.cqc.org.uk/get-involved/consultations/our-next-phase-regulation-consultation-2

5. CONTACT OFFICER

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Hartlepool Borough Council
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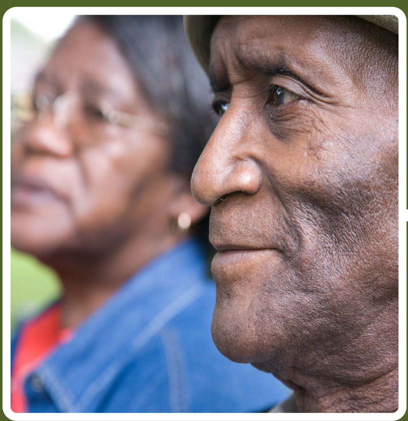
Care Quality Commission

Consultation 2

Our next phase of regulation

A more targeted, responsive and collaborative approach to regulating in a changing landscape of health and social care

Cross-sector
Primary medical services
Adult social care services



June 2017

Contents

Foreword

As a result of CQC's inspections, England has, for the first time, a comprehensive baseline of information about quality in every NHS trust, primary care and adult social care provider. We know that many services are good and outstanding and we have evidence that, with the right leadership and support, services can improve.

Now that we have established this quality baseline we want to focus more on understanding how services improve and using our insight and regulatory approach to strengthen how we encourage improvement. We know that some services struggle to improve and this can be a particular problem for some of the adult social care services that we have repeatedly rated as requires improvement. We want to develop a consistent approach across all sectors and make sure that our approach to registration enables us to always hold the right people to account.

Our strategy for 2016 to 2021, published in May 2016, set out an ambitious vision for a more targeted, responsive and collaborative approach to regulation, so that more people get high-quality care. Using the principles set out in our strategy and the learning from our inspections, we want to continue the discussion about how we should develop our approach further and move into the next phase of our regulatory model.

We want your views on how we should respond to our changing society and the care environment in a way that supports improvement and sustainability, and that continues to make sure people have access to safe, effective, compassionate, high-quality care.

We started these detailed discussions about our regulatory model in December 2016, when we published *Our next phase of regulation*. This proposed principles for how we will regulate new models of care and complex providers, and changes to our assessment frameworks for health and social care and how we register services for people with a learning disability. It also detailed changes to our approach to regulating NHS trusts.

This second consultation also has proposals that apply to all regulated sectors, including how we register, monitor, inspect and rate new models of care and large or complex providers; how we use our unique knowledge and capability to encourage improvements in the quality of care in local areas; and how we carry out our role in relation to the fit and proper persons requirement.

Our other proposals focus on changes to how we regulate primary medical care services and adult social care services.

Throughout the development of our regulatory approach, we want to keep the elements that we know people value and to improve what people tell us we can do better. We will continue to work with people who use services, providers, professionals and our other local and national partners to co-produce what we do.

Thank you for giving us your views on how we can continue to develop a more targeted, responsive and collaborative approach to regulating in a changing landscape of health and social care.

Sir David Behan CBE
Chief Executive

Introduction

CQC's purpose is to make sure health and social care services provide people with safe, effective, compassionate high-quality care and to encourage care services to improve. Our strategy, *Shaping the future*, set out a vision for a more targeted, responsive and collaborative approach to regulation, and outlined four strategic priorities, which are to:

1. Encourage improvement, innovation and sustainability in care.
2. Deliver an intelligence-driven approach to regulation.
3. Promote a single shared view of quality.
4. Improve our efficiency and effectiveness.

In December 2016, we published a consultation *Our next phase of regulation*. It proposed principles for how we will regulate new models of care and complex providers, changes to consolidate our assessment frameworks for health and social care, our approach to regulating NHS trusts, and how we register services for people with a learning disability. Our response is published alongside this new consultation. We also published a joint consultation with NHS Improvement about our approach to assessing leadership and use of resources in NHS trusts.

In this second consultation, we continue to describe how we are developing our regulatory approach in line with the direction set out in our five-year strategy. We provide further information about how we are adapting to a changing landscape of care and how we propose to regulate providers that deliver care across sectors. We seek your views on specific proposals for how we will:

- register, monitor, inspect and rate new models of care and large or complex providers
- use our unique knowledge and capability to encourage improvements in the quality of care in local areas
- regulate primary medical care services and adult social care services
- carry out our role in relation to the fit and proper persons requirement.

These proposals have been informed by what we have learned during the past four years and the feedback we have received from the public, people using services, providers and other stakeholders, including feedback from our December consultation. The proposals build on our knowledge of specific sectors and our specialist expertise, and enable a more flexible and joined-up approach.

The *Next steps on the NHS Five Year Forward View* sends a clear signal about the increasing importance of system-based transformation of care built around local populations. In July 2016, we outlined our own intention to support innovation in health and social care, and we have spent much of the past year listening to, and learning alongside, those providers who have been developing new models of care within and across the NHS, and in primary care and adult social care. We have worked with our partners to consider how we need to respond to changes in the way care is provided and to support improvement in a time of financial constraint. We will continue to develop our relationships with providers and other stakeholders so that our knowledge about service provision and the quality of care across the country is up to date. We will also continue to share good practice and to use our independent voice to encourage improvement.

In our December consultation, we asked for feedback on our principles for regulating in a complex, changing landscape. A summary of this feedback and our response is published alongside this consultation, and we have updated the principles in light of this. We will now use these principles to support a more targeted, responsive and collaborative approach to regulation, with greater emphasis on integration and leadership. They are:

1. We will always take *action* to protect and promote the health and wellbeing of people using services.
2. We will hold to *account* those responsible for the quality and safety of care.
3. We will be *transparent* about our approach, our regulatory decisions and how our actions support improvement.
4. We will work closely with our *partners* so that we take a coordinated approach to quality assessment, assurance and improvement.
5. We will be *proportionate* by using information about an organisation's structure and track record to determine when and how to inspect.
6. We will *simplify* our inspection process, where possible, to minimise complexity for providers that deliver more than one type of service.
7. We will deliver a *comparable* assessment for each type of service, regardless of whether it is inspected on its own or as part of a complex provider.
8. We will rate and report in a way that is *timely* and *meaningful* to the public, people using services, carers, providers and commissioners.
9. We will be *fair* to providers by not penalising them when they have taken on a service in order to improve it.
10. We will bring together inspectors who have *specialist* knowledge of different sectors to inspect jointly, where this is most appropriate for the provider.

These principles underpin the proposals that we describe throughout this consultation.

We are grateful for your feedback on this consultation, which closes on **Tuesday 8 August 2017**. See page 58 to find out how to respond.

PART 1: REGULATING IN A COMPLEX CHANGING LANDSCAPE

1.1 Clarifying how we define providers and improving the structure of registration

Introduction

In this section we set out our proposals for how we will develop our approach to registration and how we will change the CQC register in the future.

CQC has a statutory duty to maintain a register of who is legally able to deliver regulated activities. This register shows the public what services are available, who they are for and where to find them. The register also provides information that supports our regulatory functions to monitor, inspect and report on what we know about the quality of these services, and to take enforcement action where necessary.

In our five year strategy we proposed moving towards registering all organisations that are accountable for the quality of services to make sure that we can monitor quality across an organisation and hold the right people to account. By 'accountability', we mean:

> Accountability (either directly or through other legal entities or contractual arrangements) for the carrying on of regulated activities, where that direction or control has the effect of rendering the organisation accountable for the quality and safety of those activities, even where responsibility for delivering care sits with others.

We also propose changes to the way we structure the information we hold on our register of services to give the public a more accurate reflection of how care is delivered now, and to make sure that we can identify and adapt to future changes.

Summary of proposals

We propose to:

- develop our register so that it properly informs the public about ownership of providers, what services are provided, to whom and where to find these services
- clarify who is required to register with us so that we can hold to account all of those who are accountable for quality and make sure they improve quality across their services
- improve our understanding of large and complex organisations so that we can take a more targeted and responsive approach to regulation

- re-structure our approach to registration so that we hold more information about different types of services and so that we can make it easier to register new organisational forms and innovative types of services.

The changes we propose for registration

The scope of registration

Limitations of our current approach

Section 10 of the Health and Social Care Act (2008) requires that any person 'carrying on' a regulated activity must be registered with CQC. Until now we have interpreted this as meaning the legal entity that has ongoing direction and control of the regulated activity and which delivers the service day-to-day.

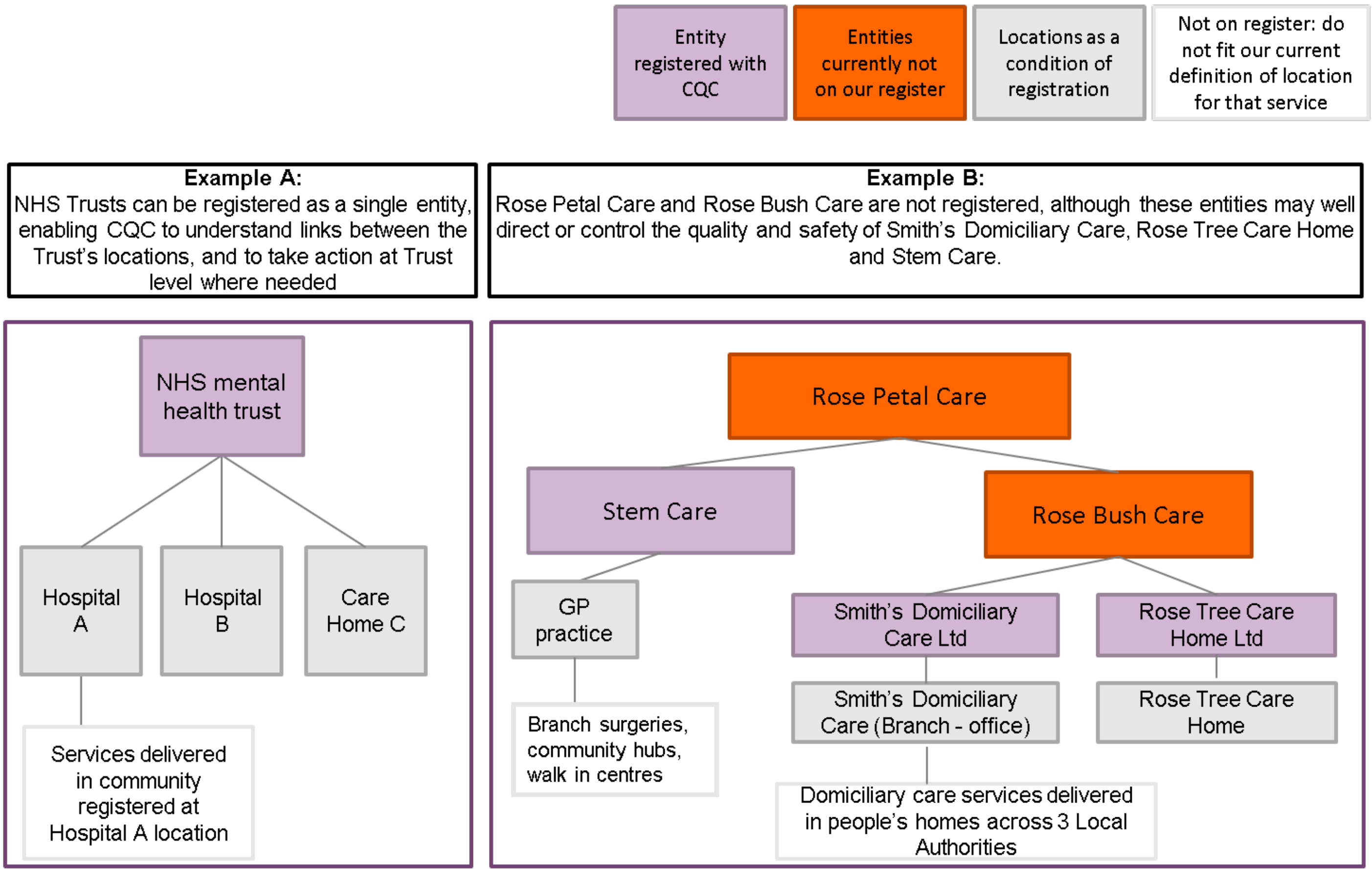
Where care providers are subsidiaries within wider groups, this means rather than registering the group as a whole, we have in most cases registered:

- the entity that is directly above the location (where regulated activities are provided or managed) in an organisational structure, and
- each provider individually.

At the beginning of June 2017, there were 30,868 providers registered with CQC delivering services across 49,394 locations. We estimate that 2,300 of these providers are part of around 350 wider groups, for example 'corporate providers' (including approximately 50 that are subject to Market Oversight Regulations). These wider groups run services from approximately 11,300 locations and own around a third of all care homes in England. We do not currently register at the corporate or group level for the majority of these services.

Here are two hypothetical examples of how this currently works in practice (figure 1).

Figure 1: Hypothetical examples of how CQC currently registers providers



We know that good leadership and accountability are crucial in ensuring that people receive safe, high-quality care in a way that is sustainable. This is not just about leadership at the local level but about recognising that leaders at the top of organisations also play a vital role in ensuring the quality of care. Our current approach to registration means that we have not been able to fully take account of this influence on quality, or to reflect the ways that many providers structure themselves and run their businesses.

Our new approach

Any providers that are currently registered with us will remain registered. We will also register any related organisations, such as parent companies, that also have accountability for quality. This means that these organisations will also appear on the CQC register, and the public will be given information about who is accountable for the care being provided.

By making changes to who is required to register, we will be able to monitor and inspect at provider level and, if necessary, require organisations to take action to improve quality using our enforcement powers (see the following table). These changes will mean that we can take action against those that are accountable for the failings. This may be the providers already registered with us, or it might be other related organisations, such as those owning and directing the provider. In the example in figure 1, this means that if there are failings in Stem

Care or Rose Bush Care we could take action against each provider. However, we could also take action against Rose Petal Care if this company was accountable for the poor quality of care across the two providers.

We want people to be able to see the history of a service where they come under new ownership, new contracting arrangements or if there is an administrative change such as change of address. In making decisions about registering providers we intend to take more account of this history.

When a person checks the register using our website to look at an individual care service, they will see a list of all the providers that are involved in delivering and are accountable for regulated care.

	Current approach to registration	New approach to registration
Register	• The CQC register shows the organisation directly delivering care day to day, but not other organisations that have some accountability for that care • We may know when separate providers are linked by common ownership and/or management, but legislation does not require registered providers to tell us about these links • The registered provider is as close as possible to delivering day-to-day services • Where services change owners, or where existing owners change the legal entity of the provider, the regulatory history and previous rating and enforcement actions do not continue, and are not displayed on our website.	• The CQC register will show all organisations based in England that are accountable for care being provided • We will have oversight of how providers fit into wider organisations and who is influencing or directing the quality of that care • We will continue to register the entity that is as close as possible to delivering day-to-day services, but we will also register organisations that are accountable for delivering these services above this level • Where services change owners, or where existing owners change the legal entity of the provider, the regulatory history stays with a service. This includes the ratings and any enforcement action. The information will be displayed on our website and will remain part of the CQC register
Monitor	• We can see a provider's strengths and weaknesses but cannot always identify systemic issues across	• We will know about the quality of care across the full range of a group's services sharing common ownership or

	providers, which may be linked by ownership or management	management. This will allow us to make much more informed decisions about how to respond to poor care and where to appropriately target our engagement or regulatory action to improve services
Inspect and rate	• We can target inspection activity but have limited scope to make the links where we have concerns across different services. This can delay inspections and duplicate effort both for our inspection teams and for providers • We have limited ability to carry out focused inspections at the overall leadership level for all health and social care providers, or to rate them; we can currently only do this in NHS trusts • We cannot use our findings to encourage improvement by recommending or requiring a provider to take action across all of its services • We are not able to inspect at relevant headquarters for organisations owning multiple providers	• We will retain the ability to inspect and rate at local service level • We will have a much more joined-up approach to providers that share common links. This will enable us to target inspections more effectively, with the option of assessing and rating the overall leadership of the organisation • We will be able to use inspection findings as a basis for more effective interaction with leadership, drawing together all we know and setting out what action we want the provider to take • We will be able to undertake inspection at relevant headquarters for organisations owning multiple providers where this is appropriate
Enforce	• We cannot always hold to account those ultimately responsible for care, as we can only carry out enforcement against legal entities that are registered with us • We risk having to hold lower levels of provider organisations to account even though true accountability does not sit at that level (for example, the fit and proper persons requirement for directors)	• We will still be able to focus enforcement action at any level of a group or organisation, but will also be able to hold overall leadership to account • We will have an enhanced ability to identify those ultimately accountable for delivering care

Independent voice	• We can't be fully confident that the information we publish in the register and in inspection reports and national publications reflects all the facts about the provider's structure and the health and care market • People choosing and using care services will not know that their local service is owned or operated by a company other than that shown on our website	• We will have a definitive register and greater confidence in the findings that we report • We will be transparent about the links between local services and organisations that are responsible for the quality of care. We will be able to report on the quality of care across these groups and organisations to enable people to make more informed judgements and choices

Defining who is accountable for the quality of care

Our proposal brings all those accountable for care onto our register. We know that different organisations are structured and run in a variety of ways and we will need to consider each provider individually. However, we believe we can define some criteria that will help us determine when an entity has responsibility for quality and so should be registered with us. These criteria would include whether the entity:

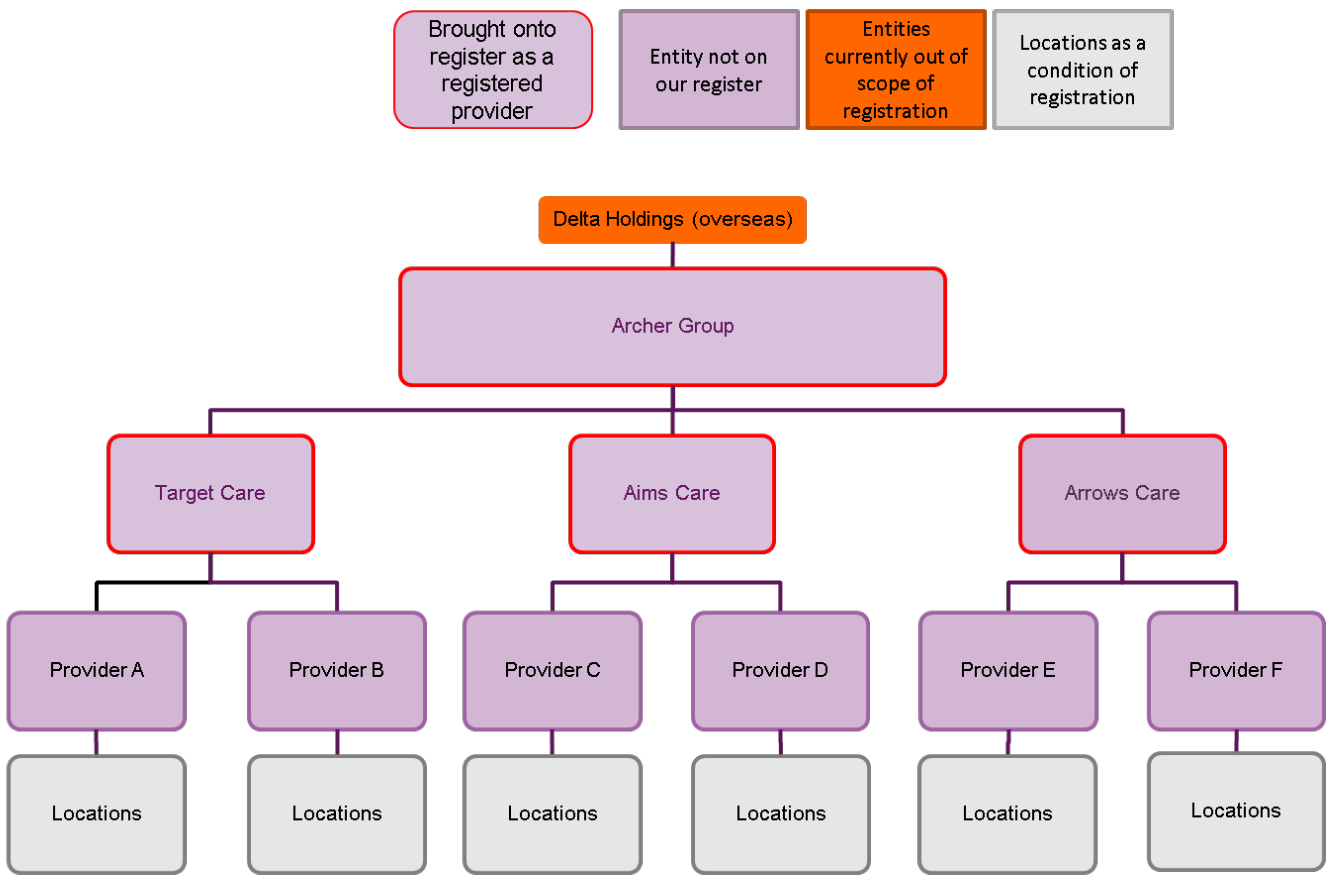
- Manages and delivers assurance and auditing systems or processes that assess, monitor and drive improvement in the quality and safety of the delivery of regulated activity and to which entities delivering that activity are accountable.
- Has the right to require providers of regulated activity to submit consolidated annual budgets in advance for approval.
- Has the right of veto such that entities providing regulated activity will only be entitled to carry on their business in accordance with financial plans that have been signed off.
- Directly develops and enforces common policies on matters such as staffing levels, clinical policy, governance, health and safety, pay levels and procuring supplies that must be adhered to by entities providing regulated activity.
- Has the right to make employment decisions concerning:
    - People who work or are seeking to work in support of the delivery of regulated activity
    - People who run or who seek to run individual care settings that deliver regulated activity
    - Board membership where the board is responsible for holding to account services or entities delivering regulated activity.

In all cases, we will only be interested in those parts of an organisation that exert significant influence over the quality and safety of services. Organisations such as hedge funds and other types of investors that do not exert this influence will not be required to register with us and will not appear on the register on our website.

CQC was established to regulate health and social care in England, and cannot carry out enforcement action against companies that are not based in England. Therefore, we will not seek to register those that are not based in England. However, we will require providers to inform us of owners that are not based in England and will use this information to link together what we know about providers with common ownership and publish this on our website.

Figure 2 shows how this would look in practice. In this hypothetical example, we would bring four additional entities into registration as they meet the test for having sufficient direction and control over the delivery of regulated activities. In other words, they meet the definition of a 'service provider'. This would mean that when somebody used our website to look up Provider A on the register, they would also see that Target Care and the Archer Group have an influence on the quality of care provided by Provider A. If we needed to take enforcement action, we could take this against whichever organisation was accountable for the regulatory breaches.

Figure 2: Hypothetical example of the effects of our registration proposals



Consultation questions

1a What are your views on our proposal that the register should include all those with accountability for care as well as those that directly deliver services?

1b What are your views on our proposed criteria for identifying organisations that have accountability for care (see page 12)?

Changing the structure of the register

Limitations of our current approach

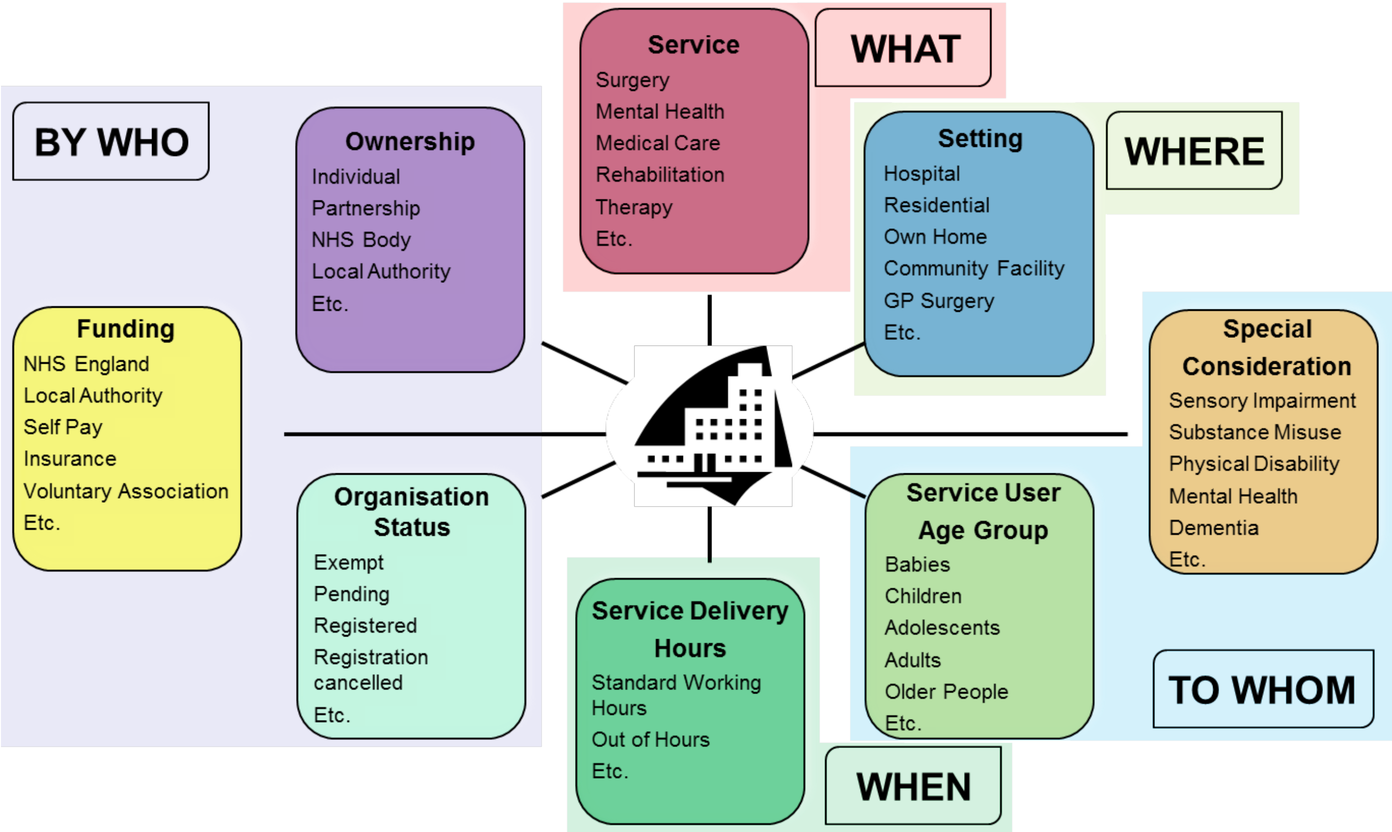
The CQC register currently displays the provider, the regulated activities and the locations from which the provider can carry on those regulated activities. The way our register is currently organised restricts providers to deliver specific regulated activities only at, or from, specific buildings defined by our 'location rules'. This means providers need to apply to us before they can change the address of buildings they manage or deliver care from (as well as to change or add regulated activities). This works where a service is delivered in a single building (such as a care home), but is less effective when services are delivered across multiple sites, in communities, in people's homes, or digitally, such as through online GP services.

We propose to change how the register is structured so that it provides a more useful record of not only who is providing care, but also how, to whom, where and when.

A new structure

We propose to use the information that providers record in their statement of purpose so that the register will include **what** type of services are provided, **who** the service is for, **what** type of setting it is provided in, **where** the service can be found and, where relevant, **how much** care is provided. Figure 3 illustrates this with some examples.

Figure 3: Example information to support a new register structure



By collecting this more detailed information we will be able to describe services in a way that is meaningful to the people who use them and to providers themselves. It will also enable us to be more responsive to innovation, as this approach will allow us to register new types of services in line with changes in health and social care.

Current structure of the register	New structure of the register
• The CQC register shows a provider, their regulated activities and the locations from which they are registered to carry these on	• The CQC register will give more detailed information about what services are provided, including the type of service, who it is for and the type of setting
• We register providers and registered managers for the regulated activities they deliver	• We will continue to register providers and managers against the same set of regulated activities
• Records the locations at which a provider carries on regulated activities, based on specific buildings and our location rules	• We will retain buildings as a core feature where appropriate (for example, care homes or hospitals) and continue to record where services are located. However, we

	will have a wider set of criteria to describe a service. Location will be only one attribute of that description
• Places limits on how much care a provider can deliver on the basis of the number of buildings it operates from	• We will have a wider set of criteria that we can use to set the limits within which a provider can operate (for example, the geographical area a domiciliary care agency can cover)
• Does not reflect the size of services, where the public can access them, and where they are provided (online, in communities or people's homes). This is because the provider may register one office (a location), but deliver care in a different area or across the country. This is particularly relevant when care is delivered in the community or in people's homes	• We will have a more accurate picture of what the service delivers, where, to whom and when
• Does not make enough use of information in a provider's statement of purpose because of the limitations of our current systems and processes	• We will make more use of the valuable information in statements of purpose by developing our systems and processes
• Applies the location rules differently for each type of service. This makes it more confusing when services are being combined in new ways, such as in new models of care	• We will understand a provider in terms of the description of its services, and reflect this in the register

Consultation question

2 We have suggested that our register show more detailed descriptions of services and the information we collect. What specific information about providers should be displayed on our register?

Implications for our fees policy

From 2017/18, we will receive around 90% of our funding from providers. We define our fees as a charge for entering and remaining within a regulated market, and we then adapt this to account for provider type and size. We do not intend to change this approach, but changes to the level at which we register providers and the structure of the register will have implications for our fees scheme and income. This will provide better information and enable us to be clearer with providers about how we calculate their fees using information in the register. The overall cost of regulation will not increase as a result of this work. We will ensure that the fees scheme aligns to this work so that our fees remain proportionate.

We are required to consult on any changes to our fees scheme, and any proposals to charge a fee for registration applications. We will ensure that the registration timetable aligns with our fees timetable, taking into account our duty to consult providers and seek the approval of the Secretary of State.

Timetable for implementation

We recognise the importance of a phased, well-managed transition for providers. We also need to allow sufficient time to develop and test new information systems, policies and procedures.

We will engage with providers whose registration will expand to include other companies within their wider group in order to identify the appropriate level to register.

Any changes to the way we record services on the register will affect all providers. We plan to test the core dataset for registration using provider information collections before applying it to providers' registrations.

April 2017 to March 2018:

- Develop, plan and assess the impact of our proposed changes.

April 2018 to March 2019:

- Start live testing, continue to engage with stakeholders and begin phased implementation.

April 2019 to March 2021:

- Continue phased implementation and engagement with stakeholders.

1.2 Monitoring and inspecting new and complex providers

Introduction

Since we introduced our new approach to regulation three years ago, we have seen an increasing number of providers operating across multiple sectors, and we expect to see many more new and complex models of care emerging over the coming years, including accountable care organisations and systems.

In this section, we describe our approach to monitoring and inspecting 'complex providers', by which we mean:

> Organisations that deliver services across more than one sector. For example, NHS trusts that provide GP services or care homes, independent community health providers that deliver NHS 111 services, or 'new models' and 'accountable care organisations (ACOs)', such as fully integrated multi-specialty community providers (MCPs) and integrated primary and acute care systems (PACS).

We also describe how we will combine our regulatory approaches for NHS trusts, primary medical services and adult social care and how we will build on our experience of regulating existing complex providers to monitor and inspect services in a more streamlined and coordinated way.

Summary of proposals

We propose to:

- identify a single CQC relationship-holder for each complex provider, who will work alongside named leads for each type of service to coordinate our regulatory activity for that provider
- align the way we collect information from providers and combine our monitoring information to inform a single regulatory plan
- coordinate our inspection activity within a defined period, except for any focused inspections in response to concerns about quality in individual services
- assess leadership and governance across all services when we assess the well-led key question in NHS trusts, and in any future provider-level assessments in other sectors (see section 1.3)
- test this approach, including with a small number of accountable care organisations and systems.

The changes we propose to monitoring and inspecting complex providers

Monitor

In our proposals for NHS trusts, GP and adult social care services, we describe how we will place more emphasis on monitoring to enable a more intelligence-driven approach to regulation. We commit to working closely with providers and other stakeholders and making better use of information throughout the year.

For complex providers, we will coordinate our monitoring activities and combine information about their services. We will identify a single CQC relationship-holder who will be the main point of contact between CQC and the provider. They will have responsibility for coordinating and planning all aspects of the provider's regulation, and will work alongside the named CQC lead for each type of service. In most cases the relationship holder will be from the CQC directorate that inspects the majority of the provider's services. For example, if an NHS trust is operating a number of care homes, the relationship holder will be from our Hospitals directorate, and they will work with our inspectors from the Adult Social Care directorate.

We want to make sure that we continue to collect the information we need about individual services but that we do not place additional burden on providers by sending multiple requests for information. We will build on our experience of regulating existing complex providers and will develop an approach to collecting information that also helps us understand any changes they are making or propose to make in the future. We will review how we engage with local partners, the public and other stakeholders, to make sure that we can capture their views on all services and, where relevant, the organisation as a whole. This will include speaking to people using services about how well care is coordinated to meet their needs.

We will strengthen our internal cross-sector risk and planning arrangements to improve how we coordinate our regulatory activity for these types of providers. Each year we will hold an internal regulatory planning meeting where we will review the information we hold about a provider and its services, and agree an appropriate inspection schedule. This will inform which services we need to inspect, when and how.

As well as this annual regulatory review, we will continue to respond to alerts and concerns about individual services in line with the approach set out for NHS trusts, primary medical care and adult social care services. When inspectors identify the need to carry out a focused inspection in addition to the planned inspection schedule, they will liaise with the relationship holder.

Current approach to monitoring	New approach to monitoring
• A separate approach to Intelligent Monitoring for each sector • Different approaches to provider information collection in each sector • Stakeholder engagement before inspection for each type of service • Named inspectors for each service but no overall relationship holder	• Coordinated approach brings together monitoring information for all services • Provider information collections are aligned across sectors • Single relationship holder for each provider with named CQC leads for each type of service • Annual internal regulatory planning meeting involving all CQC sector leads

Inspect and report

The relationship holder will work with the named leads for each of the services to develop a single regulatory plan, with inspections scheduled, wherever possible, within a defined period. This will help to avoid multiple inspections and help to simplify our inspection process. The plan will take into account the range of services provided, the inspection frequencies set out for each sector, and the risks identified through monitoring. Inspections will be conducted by one or more sub-teams, as needed, with expertise that reflects the scope and configuration of services. We will use the relevant key lines of enquiry from the assessment frameworks for health care and social care services.

When assessing the well-led key question at NHS trust level, we will look at how well the trust is working with its partners and how well it is integrating services across the sectors, where this is relevant. CQC staff from all inspection directorates will be involved in the quality assurance process. In section 1.3 we discuss how we might assess quality at provider level for other types of organisation, subject to the changes to registration described in section 1.1.

We will improve our website to make it easier for people to see the links between services and the overall provider.

Current approach to inspection	New approach to inspection
• Separate inspections for different services and sectors • Single provider-level assessment for combined trusts only	• Coordinated schedule of inspections • Assessment of well-led key question at a provider level reflects leadership across all the services that the provider delivers • Inspections will be carried out by teams of hospital, primary care and adult social care

Integrated health and care systems

We are also seeing an increasing number of organisations developing partnerships to deliver care as part of more integrated health and care systems. These include accountable care systems (ACS) that receive more control and freedom over a local health economy in order to provide joined-up, better coordinated care that keeps people in their local population healthier for longer.

In most of these cases, given that there is no change to the legal responsibilities of each organisation working as part of the ACS, we expect to continue to register and regulate each organisation as a separate legal entity. This means that we can hold the right people to account for the quality of care they provide. However, we recognise that there could be benefits in taking a coordinated approach to monitoring and inspecting these services, in a similar way to that described above. This would help us understand the structure and aims of the model, and enable us to provide an independent assessment of how well the individual providers and services are working together to meet people's needs.

This could include a single relationship holder for a group of providers, a coordinated planning review and inspection schedule, and potentially an assessment of leadership, governance and integration across the whole model or system. We propose to test this in a small number of areas during 2017/18. Our approach will be shaped through discussion with local providers and stakeholders, as well as with our system partners, such as NHS England, NHS Improvement and the Local Government Association.

Timetable for implementation

April 2017 to March 2018:

- test a coordinated approach to monitoring, inspecting, rating and reporting on health and social care services in a sample of areas, with a focus on evolving accountable care organisations and systems.
- identify relationship holders and introduce joint regulatory planning meetings and joint inspections for existing complex providers
- begin using provider information collections to identify complex providers and links between services.

April 2018 to March 2019:

- continue using provider information collections to identify complex providers and links between services
- test approach with independent health and social care led organisations, alongside live testing of provider-level registration

- test approach to provider-level assessment and, if appropriate, ratings for complex providers, in line with proposals set out in the next section
- agree approach to regulating accountable care organisations and groups of organisations in accountable care systems.

Consultation questions

3a Do you agree with our proposals to monitor and inspect complex providers that deliver services across traditional hospital, primary care and adult social care sectors?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

3b Please explain the reasons for your response.

1.3 Provider-level assessment and rating

Introduction

In this section we set out proposals to assess the quality of care at provider level and consider options for how this might work across health and social care sectors, including where providers deliver more than one type of service. By provider level, we mean:

> The highest level at which we register any organisation that delivers more than one service. This would include the board level of an NHS trust or independent sector provider, or the management level of a GP federation or care home group.

We explain how we will develop and test our approach with different types of organisation alongside the proposed changes to the scope of registration discussed in section 1.1.

Summary of proposed changes

We propose to introduce a provider-level assessment and/or rating for providers across all the sectors we regulate, subject to the proposed changes to registration.

We will:

- continue to rate NHS trusts at provider level in 2017/18 based on our assessment of the well-led key question and use our aggregation principles and professional judgement to rate the other four key questions
- develop a new provider-level assessment for NHS trusts, corporate providers of health and social care services, large-scale general practices and other complex providers
- work with providers and other stakeholders from across the sectors that we regulate to develop and test the assessment
- introduce our assessment in phases to reflect the organisational context of providers, including where registration changes are needed.

What we propose for assessing and rating at provider level

Provider-level assessment in all sectors

During our first phase of comprehensive inspections, the only type of provider that we registered and rated for the quality of care at provider level was NHS trusts. This year, we will continue to rate NHS trusts at provider level for all five key questions. The rating for well-led at trust level will be determined through our assessment of the well-led key question. Provider-level ratings for the other four key questions will be determined using our ratings aggregation principles and the professional judgement of our inspection teams, as outlined in our guidance for NHS trusts, published alongside this consultation.

Where trusts deliver services across sectors, for example GP services or care homes, these services will be inspected and rated in line with the approach described in Part 2 of this consultation document, and will be coordinated in line with our approach to complex providers described in section 1.2. The quality of these services will be considered in the trust-level assessment of well-led, and our inspection teams will work together to agree how their ratings should be reflected in the trust-level rating.

To ensure that we make consistent decisions, we follow a set of 16 ratings principles when rating core services, locations and providers. We may use professional judgement and deviate from the principles when aggregating ratings to ensure they are proportionate to all available evidence and the specific facts and circumstances. This includes when a provider has taken on new services or where a service or location significantly differs from the other services – for example in the type and mix of service (including other than hospital care), or the size of a service, its type of setting, or the population groups it serves. We will consider any concerns we have identified, such as the potential impact on people who use services and the risks to quality and safety. We will then consider how confident we are in the service's ability to address these concerns.

We can already comment on the overall quality of care in large provider groups in other sectors, using the findings of our service-level inspections. However, we propose to develop a provider-level assessment for all sectors, including NHS trusts, corporate providers of health and social care services, large-scale general practices and other complex organisational forms. This will enable us to hold them to account more effectively at this level, including when we have rated several of their services as requires improvement or inadequate.

We will introduce provider-level assessments as we start to change the way we register providers, in line with our approach to registration described in section 1.1. We will test this with providers that are already registered at this level, for example some corporate providers of independent healthcare. This assessment will be in addition to our inspection and rating at service level, which will continue as set out in our proposals for regulating hospitals, primary medical services and adult social care.

Rating at provider level

Since the introduction of our ratings approach, we have seen that ratings can have different purposes for different audiences at provider and service level (summarised in figure 4).

In taking forward our proposals, we need to make sure that we continue to give people the information they need and that we can continue to encourage improvement. We will need to consider whether we should rate providers of health and social care at the highest level, as we already do for NHS trusts, and whether this would be effective in encouraging improvement and providing accountability to the public, people who use services, and commissioners of care. We may introduce provider-level rating across some or all sectors.

As new models of care evolve, we will also need to consider how we can develop a more consistent approach across different types of organisation, including NHS trusts and providers in the independent sector.

Figure 4: Purposes of CQC ratings for different audiences

Purpose of ratings	Audience
Help people to choose services	Commissioners, people who use services , the public (but limited at provider level)
An incentive to improve performance in delivering safe, high-quality care	Health and care providers and their staff
Increase accountability and transparency about quality of care	Commissioners, public, people who use services
Enable comparisons of performance over time and between organisations	Commissioners, public, providers, national bodies including CQC, NHS Improvement, NHS England

Developing our approach

We plan to involve providers and stakeholders from across all sectors in developing our approach to an assessment at provider level. We will consider the scope of the assessment and the benefits of rating, and will test and evaluate the effectiveness and affordability of our proposals with different types of organisation.

We have been exploring a number of possible options for our provider-level approach, including:

1. **Developing a new provider-level assessment framework**, where the scope of the assessment would reflect those elements of the existing five key questions which are most relevant at the provider level.
   - Bespoke assessment framework
   - KLOEs reflecting what good looks like at provider level; these would combine parts of the five key questions with other factors which influence care at this level
   - A provider inspection team would undertake the provider-level assessment

- It would result in a narrative report, and potentially a single rating for quality and safety could be awarded for some or all provider types.

2. **Assessing well-led only at the provider level**, using a single well-led assessment framework, based on the existing frameworks. The other four key questions would not be assessed or rated at provider level.
   - A single well-led assessment framework, based on the existing healthcare framework
   - A provider inspection team would undertake an assessment of well-led using the existing framework
   - Outcome would be a narrative report, and potentially a rating for well-led could be awarded for some or all provider types
   - No ratings for the other four key questions at this level.
3. **Assessing up to five key questions at provider level,** using a single well-led assessment framework, based on the existing healthcare framework, plus assessment frameworks for some or all of the other key questions applied at provider level.
   - A well-led assessment framework, based on the existing healthcare framework.
   - Bespoke assessment frameworks for four key questions to ensure they can be applied at provider level.
   - A provider inspection team would undertake an assessment of all five key questions at provider level
   - Outcome would be a narrative report, and potentially a rating for all five key questions could be awarded for some or all provider types
   - Where five ratings are awarded, these could be aggregated into a single provider level rating for some or all provider types.
4. **Adopting the current approach in NHS trusts for other types of provider**, with an assessment and rating for the well-led key question at provider level, and rating of the other four questions based on aggregation and professional judgement.
   - A well-led assessment framework, based on the existing healthcare framework
   - A provider inspection team would undertake an assessment of well-led using the existing framework
   - Outcome would be a narrative report. A rating for well-led would be based on the assessment, and the provider rating for the other four key questions would be based on aggregation and professional judgement for some or all provider types
   - Where five ratings are awarded, these could be aggregated into a single provider level rating for some or all provider types.

Figure 5: Options for our provider-level approach

Option	Assessment framework	New or existing framework?	Ratings	Assessment or aggregation?
1	Provider level assessment	New	One provider rating	Assessment
2	Provider well-led	Existing	One well-led rating	Assessment
3	Provider five key questions	New	Five key questions and overall ratings	Assessment, with aggregation for overall rating
4	Provider well-led	Existing	Five key questions and overall ratings	Assessment for well-led/aggregation and professional judgement

With NHS Improvement, we plan to introduce an assessment of an NHS trust's use of resources. This is for acute trusts initially and then for all NHS trusts. We will develop and test options for combining use of resources and quality ratings, and will consult on options later this year.

We will develop our provider-level assessment approach in parallel with our approach to assessing use of resources, and the development and testing will continue as we make changes to the scope of registration.

Current approach to provider-level assessment	New approach to provider-level assessment
• NHS trusts only	• A wider range of providers including corporate providers, NHS trusts, large-scale GP services, new care models
• Includes an assessment of well-led and rating at provider level • Ratings for other four questions aggregated using professional judgement	• Assessment likely to include well-led • Could go beyond well-led to reflect other aspects of quality and safety. May include an assessment or aggregated rating for other questions • Will include a use of resources rating for NHS trusts
• Core services and hospital ratings based on aggregation	• Core services and hospital level ratings continue to be determined through aggregation

Timetable for implementation

April 2017 to March 2018:

- Consultation on more detailed proposal, informed by the current consultation, (Winter 2017/18)
- Development of operational approach (Spring 2018).

April 2018 to March 2019:

- Pilot assessments alongside live testing of registration approach
- Publish final assessment approach
- Begin provider-level assessment in line with registration timetable.

Consultation questions

4a Do you agree that a provider-level assessment in all sectors will encourage improvement and accountability in the quality and safety of care?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

4b What factors should we consider when developing and testing an assessment at this level?

1.4 Encouraging improvements in the quality of care in a place

Introduction

As the regulator for the quality of health and adult social care in England, we are responsible for the regulation of providers. This helps ensure that people receive safe, effective, compassionate and high-quality care. But we know that people's experiences are also affected by how well services work together and that quality can be influenced by factors that are outside a provider's direct control.

We need to make sure that we are able to understand and assess quality in a way that remains meaningful to the public, that we can always tell who is accountable for quality locally, and that we offer a proportionate approach that supports providers and commissioners to deliver the aims of the Five Year Forward View.

In this section we describe how we will use our unique knowledge and influence across the health and social care sector to work with our national and local partners, to encourage improvement, innovation and sustainability beyond the boundaries of individual providers, in line with the direction set out in our five-year strategy.

When we refer to quality of care in a place, we mean:

> The quality of health and social care services within a geographical area and their collective impact on people's experiences and outcomes. For example, the quality of care provided within local clinical commissioning group or local authority commissioning areas, within sustainability and transformation plan areas, or nationally in England.

Summary of proposals

We propose to:

- use our monitoring and inspections of individual providers to assess how well services are working together and to understand the impact on people's experiences
- use our insight about quality in a place to help us understand the context in which providers are working
- use our independent voice and relationships with national, regional and local partners to share our view of quality across health and social care and to highlight cross-system issues
- undertake a small number of targeted reviews that look at how health and social care work together and identify improvements that benefit people that use services

- work with local providers and commissioners, and national oversight bodies – such as NHS England and NHS Improvement – to coordinate what we do to make best use of our respective powers in order to overcome barriers to improvement.

Understanding how providers work together to improve quality

In our December consultation we proposed aligning our assessment frameworks for health care and social care and strengthening our focus on leadership, partnership working and integration. This will help us to look more closely at the ways in which providers are working together in a local area and the experiences of people moving within and between services. This may include, for example, looking at how:

- GPs refer people to acute or mental health services and support people living in care homes
- acute services liaise with GP, social care and community care teams and discharge people out of hospital
- adult social care staff assess and support people's healthcare needs and coordinate care with healthcare services.

We propose to:

- develop CQC Insight – our new approach to monitoring data in each sector – to include information about quality in local areas and, where relevant, about the quality of a provider's different services, so that our inspectors have a better understanding of the context in which services are working
- use our new cross-sector risk and planning and scheduling arrangements (described in Section 1.2) to identify, share and follow up information about quality in the area, including the views of people using services, their families and carers, about their experiences across different services
- develop inspection prompts for hospital, primary medical care and adult social care services that enable us to assess the interactions between providers and the impact on people using services
- report our findings about local partnership working and integration in our provider inspection reports and share with local partners and other stakeholders (as set out below).

Using our independent voice to encourage improvement, innovation and sustainability

We will make more effective use of our knowledge and our independent voice to encourage improvements and inform sustainability and transformation plans (STPs). We will bring together the information we hold about quality in a local area, highlight changes in quality and priorities for improvement, and share examples of good practice and innovation. We will continue to provide a national view of quality across the health and social care system and the development of integrated models of care.

We propose to:

- develop CQC Insight products that draw on the information we hold, including information about people's experiences of care, our inspection findings and local knowledge, to provide a view of quality across national, STP and local commissioning area footprints
- share information with our national partners, local commissioners and other stakeholders, including Quality Surveillance Groups, to help them identify priorities for improvement and agree where further monitoring, inspection or other activity may be required by CQC or others
- use our independent voice, including our national State of Care report, to comment on the changing landscape of care provision, how providers are working together, and the quality of care for local populations.

Helping local partners identify opportunities for improvement

In recent years we have tested different ways of looking at the quality of care across a place. We have provided views of quality in Salford, North Lincolnshire and Tameside, and we have looked at urgent and emergency care networks in the Bradford and Airedale area and in South Warwickshire. This work has developed our understanding of quality across a system. We have built on this learning to test a more targeted approach to place-based activity in Cornwall and the London Borough of Sutton. In 2017, the Secretary of State for Health also asked CQC to carry out targeted reviews across a small number of areas to look at how health and social care work together and what improvements could be made to benefit people who use services.

We will develop a framework that supports local inspection teams to identify and respond to system-wide issues that we identify as part of our internal cross-sector conversations and risk meetings. This may inform what we look at when we carry out our routine inspection activity. In more exceptional circumstances, we may agree with our partners about the benefit in using our review powers to help local stakeholders understand the issues affecting quality and to identify opportunities for improvement.

We propose to:

- develop a framework to enable us to assess quality across a local system, with a focus on leadership, governance and collaboration between providers and commissioners across sectors
- work with our system partners, NHS Improvement, NHS England and locally with Quality and Surveillance Groups, to ensure that we are making the best use of our respective powers, coordinating our activity and sharing what we find in a way that is meaningful to people using services and local stakeholders.

Timetable for implementation

April 2017 to March 2018:

- publish findings from our work in Cornwall and the London Borough of Sutton (Summer 2017)
- develop and test prompts to assess integration as part of our service-level inspections
- continue to develop and test area data profiles and engage with partners to shape the data that we can offer for external use
- carry out targeted reviews in a small number of areas, as requested by the Secretary of State.

April 2018 to March 2019:

- continue to develop our approach to sharing insight and agreeing action with our national and local partners
- agree a programme of reviews using our section 48 powers, as required.

Consultation questions

5a Do you think our proposals will help to encourage improvement in the quality of care across a local area?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

5b How could we regulate the quality of care services in a place more effectively?

PART 2: NEXT PHASE OF REGULATION

2.1 Primary medical services

Introduction

In this section we describe how we propose to develop our approach to regulating primary medical services in the context of a changing landscape of care and in line with the direction set out in our new five-year strategy. We describe how we will monitor, inspect, rate and take action to encourage improvement in GP services. We highlight key aspects of our approach to regulating independent sector primary care services, NHS 111, GP out-of-hours and urgent care services, primary medical care delivered online, and large scale models of primary care provision such as GP federations, super practices and multi-speciality community providers.

The majority of GP practices are currently rated good or outstanding (91%), based on inspections we have undertaken since October 2014. We have also seen that, with the right support, practices found to be providing poor care have improved significantly. This means that we can build on the aspects of our current approach that have worked well and have encouraged improvement, and can also take a more proportionate, targeted and responsive approach. One aspect of our approach that we want to review in light of experience is the way that we inspect and rate against the six population groups.

We are reviewing our approach to dental regulation and will consult in autumn 2017 if any substantive changes are proposed. We are not proposing to change our approach to regulating health and justice services at this time.

Summary of proposals

Information will be at the centre of our approach and we will strengthen how we manage our relationships to support more responsive and targeted inspections.

We propose to:

- implement a more consistent approach to working with providers and other stakeholders to understand the quality of care and to encourage improvement
- introduce an annual online provider information collection to allow providers to tell us about the quality of care they provide
- introduce a new Insight model to alert our inspectors to changes in the quality of care

- explore information about the quality of care in local areas or within large-scale models of primary care
- focus our inspections on the issues highlighted through our monitoring or identified as part of our cross-sector planning
- increase the period between inspections for services rated as good or outstanding
- continue to carry out comprehensive inspections for new providers and for practices that have been rated as requires improvement or inadequate
- review how we assess and rate the quality of care for different population groups, to focus on how effective and responsive practices are to the different groups.

We will continue to develop our approach in response to changes in the primary care landscape, and in line with the changes to registration and regulating complex providers outlined in Part 1.

The changes we propose for general practices

Monitor

Our monitoring function will play a greater role in how we regulate. Our new CQC Insight model, strengthened relationship management, and online provider information collection will enable us to monitor potential changes in the quality of care. We will use this intelligence to target our activity and encourage improvement.

Provider information collection

We will replace the existing provider information return with an annual online information collection. We will ask providers for information every year rather than as part of the preparation for an inspection, and will encourage them to keep it up to date. This is one way that providers can demonstrate an open culture and that they are taking responsibility for assuring the quality of care they provide.

We will ask providers for information including:

- what has changed about the quality of care provided over the last year and what plans they have to improve
- examples of good practice
- how they provide effective and responsive care to each of the population groups.

Over time, the annual information collection will be aligned with requests from other organisations to reduce duplication and the burden on providers. For example, we are working with the General Medical Council and NHS England to streamline and align our requests (including the Annual Electronic Declaration – eDEC). We will work with our regulatory partners to ensure that practices only need to provide a single description of their quality, based on the five key questions.

CQC Insight

CQC Insight is a tool that presents practice-level data against national comparators and identifies potential changes in the quality of care. In time, it will include more information about quality within a clinical commissioning group, including outcome indicators that can provide a better measure of effectiveness within the area than we can accurately measure at practice level. If a practice is part of a GP federation or other organisation, CQC Insight will include information about the performance of other services in the group.

Our analyses will be updated throughout the year and will provide our inspectors with more timely information. We will use this information to plan when and what to inspect and include it as part of the evidence in our inspection reports. We will continue to develop the model and work with stakeholders on future updates. Analyses from CQC Insight will include information from people who use services and national and local partners, as well as from the new provider information collection.

Strengthened relationship management

We already work closely with providers and national, regional and local partners. We will continue to strengthen these relationships to share information, reduce duplication and coordinate action where support is needed to improve, for example from the Royal Colleges and professional regulators, NHS England, the GP Regulatory Programme Board, local and national Healthwatch, clinical commissioning groups or local medical committees. Our inspectors will also work with colleagues in CQC's Hospital and Adult Social Care directorates to review information about quality across the local system and to share this with quality surveillance groups and those developing sustainability and transformation plans.

Our inspection teams will communicate with local stakeholders and gather information about the providers in their area throughout the year, rather than focusing their engagement activity around an inspection. This will help us understand how the delivery and quality of care is changing and make decisions about what, if any, action to take.

Planning our regulatory response

Every year we will formally review all of the information we have about a provider. This will ensure that our monitoring and planning decisions are made clearly, consistently and transparently.

Our inspectors will consider whether there have been any changes to the quality of a provider's care since our last inspection or if the available evidence still supports the rating. This will include reviewing the annual provider information collection, CQC Insight and information from stakeholders.

During this review, we may need to contact the provider to clarify an issue. If information indicates that the quality of care has improved or deteriorated since the last rating, we may decide to inspect. If we don't need to take any action, we will tell the practice that we have carried out the review.

Current approach to monitoring	New approach to monitoring
• Intelligent Monitoring indicators used as part of a wider approach to gathering information before an inspection • Indicators updated periodically • Provider information request sent when inspection announced • Short turnaround time for providers	• Ongoing monitoring will identify potential changes in the quality of care • CQC Insight indicators will be updated frequently. Insight will focus on changes since the previous rating (improvements and areas of risk) and include data about quality in the area • Every year providers will tell us about changes to the quality of care provided, improvement plans, and examples of good practice • Providers can update at any point during the year

Where a service is provided by an NHS trust or other complex provider, our inspectors will work with our hospital and/or adult social care inspectors to plan a joint inspection schedule, as set out in Part 1.

Consultation questions

6a Do you agree with our proposed approach to monitoring quality in GP practices?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

6b Please give reasons for your response.

Inspection

Scope of inspections

Inspection remains an important part of our regulatory approach. It enables us to gain an in-depth understanding of the quality of care and to identify and encourage improvement. In all sectors we ask five key questions: is care safe, effective, caring, responsive and well-led? In general practices we also assess quality for six population groups: older people; people with long-term conditions; families, children and young people; working age people; people whose circumstances might make them vulnerable; and people experiencing poor mental health.

Comprehensive inspections will continue to address all five key questions and all six population groups. We will always carry out a comprehensive inspection for providers rated as inadequate or requires improvement, or that have not been inspected before. However, we propose to change our approach to assessing care for population groups (see the ratings section below).

We will carry out more focused inspections for providers rated as good and outstanding. These will follow up any potential changes in the quality of care indicated by our monitoring activity, or will focus on a specific population group or care pathway when this is highlighted in the data for the local area. We will develop criteria to help our inspectors decide which key questions or issues to focus on. We will always inspect the leadership, governance and culture of the practice under the well-led key question.

All of our inspections will include a site visit. Our inspection teams will still involve specialist advisors and, where appropriate, people who have personal experience of using services. The size and composition of our inspection teams will depend on whether it is a comprehensive or focused inspection and the type of services being inspected, and will include hospital or adult social care inspectors where services are provided in an integrated or complex model.

Inspection scheduling

If we have concerns about services, we will inspect them more frequently than those where we receive assurance that they are maintaining a good quality of care.

We will continue to inspect providers with an overall rating of inadequate every six months and those rated as requires improvement every 12 months, until they improve. For providers rated as good or outstanding overall, we will move to an inspection interval of up to five years, in line with our commitment in our strategy and NHS England's General Practice Forward View.

We may bring forward an inspection when:

- our monitoring information indicates a potential improvement or deterioration in the quality of care
- practices are part of a larger or complex provider and we have chosen to carry out a coordinated inspection, for example alongside our hospital and adult social care inspectors
- we are undertaking a place-based review, as described in section 1.4.

Every year a proportion of the providers rated good or outstanding will be inspected to make sure that they are all inspected at least once every five years.

We may inspect any service at any time, irrespective of rating, where this is appropriate.

There will be greater flexibility around inspection notice periods. For example, inspectors may give longer notice periods where we are focusing on specific themes or carrying out an area-based or complex provider inspection. Or we may carry out short notice or unannounced inspections where we have concerns.

Current approach to inspection	New approach to inspection
• All providers inspected at least once during our first programme of inspections • Inspections usually announced • Fixed notice periods for inspection • All providers receive at least a 'baseline' comprehensive inspection (all key questions) • Focused inspections for follow-up of concerns or risks	• Maximum inspection intervals determined by rating and monitoring information • Greater flexibility to use announced, short notice and unannounced inspections • Inspections alongside our adult social care and hospitals colleagues when we inspect more complex models • Focused inspections based on CQC Insight for providers rated as good and outstanding – may focus on key questions, population groups or care pathways

Reporting

Our inspection reports enable us to give the public a better understanding of what they should be expecting from their local care services. They also encourage improvement by sharing examples of outstanding and innovative practice and highlighting areas that need to improve.

Our reports will be shorter and less repetitive, and will use language that is more accessible for the public. They will include a summary report and a more detailed 'evidence table' – which will set out in more detail the evidence we have used to make our judgements. Both sections will be structured around the key lines of enquiry (KLOEs). We will streamline our internal quality control and assurance processes to speed up the publication of reports. We are committed to publishing 90% of reports within 50 days of the inspection taking place.

Current approach to reporting	New approach to reporting
• Report includes all evidence, findings, ratings, contextual information and any enforcement action we have taken • Presented in a narrative style	• Report includes summary of findings, contextual information and ratings • Appendix includes all the evidence presented factually

Rating

Ratings are an important indicator of quality for patients and the public, enabling people to make choices. They increase accountability and transparency and help services and others compare performance between organisations, to identify good practice and incentivise improvement.

We will only change a rating on the basis of evidence from data and inspections. Currently we do not update overall ratings following focused inspections carried out more than six months after a comprehensive inspection. However, in future we propose to remove this rule and to update ratings any time following an inspection.

Ratings for population groups

We currently inspect and rate the quality of care for each of the six population groups against each key question and provide aggregated ratings for each population group, each key question, and for the practice overall. This results in 43 separate ratings for each practice, and means that where practices have developed specific initiatives for particular populations, their achievements are not always discernible in their overall rating. For example, a practice could be rated as outstanding for providing responsive and effective care for people experiencing poor mental health, but not have this recognised because their overall performance on safety or well-led is not good. We want to simplify this by reducing the overall number of ratings we give.

During our full programme of inspections in general practice over the last three years, we have learned that the most significant differences in quality between the population groups are in the effective and responsive key questions. We find that our ratings for caring, safety and well-led are broadly consistent for each of the population groups and at overall practice level.

We want to make our judgements on the quality of care provided to population groups more transparent and easy to understand. We could achieve this by only rating population groups using the effective and responsive key questions. If we make this change, we would instead assess caring, safety and well-led at practice level, highlighting any population-specific issues that we find. In addition, we would continue to inspect a practice’s safeguarding arrangements for children and adults as a key line of enquiry under the safety question and report this at practice level. These changes would not affect the way we look at safeguarding issues or the way we calculate overall ratings for the practice. We would continue to give each of the key questions equal weighting.

The grid below sets out the ratings we give for a practice on a comprehensive inspection. The shading shows the ratings we are proposing to no longer provide.

Figure 6: Proposed ratings grid for a comprehensive inspection of a GP practice

Level 1: Two key questions for every population group

	Safe	Effective	Caring	Respon-sive	Well-led	Overall
Older people						
People with long-term conditions						
Families, children and young people						
Working age people (including those recently retired and students)						
People whose circumstances make them vulnerable						
People with poor mental health (including people with dementia)						

Level 2: Aggregated rating for every population group

Level 3: Rating for every key question

Overall						

Level 4: Overall rating for the practice

Current approach to rating	New approach to rating
• An overall rating and a rating for all key questions at practice level • An overall population group rating and ratings for each key question across all population groups • Focused inspections more than six months after a comprehensive inspection do not update the overall rating	• Continue to give an overall rating and a rating for all key questions at practice level • Ratings for effectiveness and responsiveness for all population groups • Ratings can be changed after a focused inspection at any time

Consultation questions

7a Do you agree with our proposed approach to inspection and reporting in GP practices?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

7b Please give reasons for your response.

8a Do you agree with our proposal to rate population groups using only the effective and responsive key questions? (Safe, caring, and well-led would only be rated at practice level.)
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

8b Please give reasons for your response.

9a Do you agree with our proposal that the majority of our inspections will be focused rather than comprehensive?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

9b Please give reasons for your response.

Taking action to improve care

Services that repeatedly require improvement

In general practice, we have found that the majority of services rated as requires improvement take timely action and improve. Our regulatory response will therefore always take into account whether a service has breached any regulations, its track record on quality and plans for improvement.

We will continue to engage with partners to highlight examples of improvement, and promote good practice and available sources of support. We will also monitor services more closely to identify any changes or deterioration in quality, so that we can respond more quickly if necessary.

There are occasions when services are unable to demonstrate that they have the necessary leadership or governance processes to assure and improve quality, and this may represent a breach of Regulation 17 (good governance). We will always consider this when a provider has received an overall rating of requires improvement more than once, and we may ask the provider for a written report to set out how they will assess, monitor and improve the quality and safety of their services. This improvement action plan will need to be agreed with their commissioners. If they are rated as requires improvement for a third time, we will hold a formal management review meeting (MRM) to consider the next steps and the potential use of our enforcement powers. As with the current framework, if one or more key questions is rated as inadequate in two consecutive inspections, the provider will enter special measures.

Where we register larger primary care providers, we will monitor quality across all their services. Where there are concerns across the group, we may consider taking action to hold the provider to account, for example by using our enforcement powers.

More effective and consistent enforcement

We cannot currently publish information about enforcement activity in inspection reports until the period in which providers may submit representations and appeals has closed and the outcome of these has been decided. In future, we want to be more transparent with the public when we are taking enforcement action by publishing the details sooner. We are working with the Department of Health on this issue.

Independent sector primary care – overview of proposed approach

In 2015, we consulted on our approach to regulating and inspecting primary care services in the independent sector and we tested our approach in pilot inspections of 40 independent doctor services. Feedback from providers and those involved in the pilots was positive, and has informed our next phase approach.

We propose to no longer separately categorise services provided in the NHS or independent sector. Independent sector services will instead be categorised in line with similar types of services provided in the NHS. The majority of the services will be categorised as primary medical services. In some cases providers may also deliver services that are not defined as regulated activities and therefore fall outside the scope of regulation. Where this is the case, we will make this clear on our website so that the public can understand what we are unable to inspect.

We will assess independent sector primary care services using the approach set out for general practice. For providers offering private GP services, we may also consider how they care for population groups. Where necessary, we will develop sector-specific guidance and inspection prompts. The size and composition of our inspection teams will depend on the kind of services being inspected, and will involve specialist advisors with relevant experience.

We are looking to include these services in the scope of our ratings powers but, in the meantime, we will make judgements about whether care is safe, effective, caring, responsive and well-led, based on whether the relevant regulations are being met.

NHS 111, GP out-of-hours and urgent care services – overview of proposed approach

We face two challenges when regulating NHS 111, GP out-of-hours and urgent care services – by which we mean walk-in centres, minor injury units and urgent care centres:

1. These services can be provided, or hosted, by primary care providers, as well as secondary care providers (including acute and ambulance trusts, and community providers).
2. There is no national data available for urgent care services.

We recognise that, regardless of commissioning arrangements or whether it is a primary care location or part of a trust, these services are doing the same things. Therefore, we will be consistent in our assessment of these services, across the different sectors, regardless of who is providing or hosting these services.

For NHS and foundation trusts that provide NHS 111, GP out-of-hours and urgent care services, we will tailor how we inspect and report on these providers, while being consistent in the assessment we use. This will enable us to take account of the complexity, scale and scope of these providers, and be responsive to the different provider arrangements that we are seeing in the sector.

The key changes we make to our approach for those services provided by primary care providers will be consistent with the model for general practice, as set out above. In summary, we will:

- Strengthen our relationships with providers and our partners (including commissioners) to help us understand service provision, accountabilities and responsibilities. This will help ensure we involve the right people with the right expertise on our inspections.

- Align the provider information collection with requests from other bodies, including NHS England – the collection will tell us about the services being provided, and any changes happening within providers.
- Align our CQC Insight model with NHS England's Integrated Urgent Care Key Performance Indicators.
- Continue to carry out comprehensive inspections of these services, with an increased focus on issues highlighted through our monitoring, or identified as part of our cross-sector planning arrangements.
- Where possible, try to inspect NHS 111, GP out-of-hours and urgent care services at the same time, where a provider is delivering these services across an area.

We are aware that providers of NHS 111, GP out-of-hours and urgent care services are working within the context of greater integration, under new commissioning arrangements and new care models. For example, urgent and emergency care services are working together under 'alliances' to provide more coordinated care and support across local areas. We will improve how we coordinate our regulatory activity across local providers so that we may conduct a series of inspections, across a range of providers within a local area at the same time – sometimes as part of a place-based review of care. We will also use the new assessment framework to strengthen our focus on how these services are working with each other, and other providers, to share information and coordinate care.

Primary care delivered online

In March 2017, we published information to clarify how we propose to regulate digital primary healthcare providers. These are services that provide a regulated activity online. Examples include providers prescribing medications or delivering GP consultations over the internet. Our methodology will include the standard key lines of enquiry, supplemented by sector-specific prompts.

We do not currently have the legal powers to rate most digital healthcare services due to the type of provider and the contracts they hold but we are looking to bring them into the scope of rating. Until then, we will make judgements about whether the care provided is safe, effective, caring, responsive and well-led, based on whether the relevant regulations are being met. We will take action where care is not safe.

Where GP practices also offer online consultations, inspection teams will use the specific digital healthcare prompts, together with the standard KLOEs and prompts in the assessment framework for health care services. Our aim is to ensure that the same safeguards are in place during those consultations as we would expect in exclusively online providers.

Primary care at scale – overview of our proposed approach

Primary care is evolving and the way care is organised is changing. Many GP practices are joining federations, super-partnerships, multi-site practice organisations or other new models of care, including GP-led multi-speciality community providers (MCPs) which we refer to as large-scale general practice. We anticipate that we will continue to inspect the majority of GP services as part of our GP inspection programme. This will include practices that have retained their independent status, as well as practices that are fully integrated within a larger organisation. Our new KLOEs will enable us to assess how well these services are integrating with other parts of the health and social care system.

The pace and scale of change is different around the country, so we need a flexible and responsive approach. We will inspect some practices as part of a coordinated complex provider or area inspection and, in time, we may move towards also inspecting at the highest level of accountability for quality, in line with our proposals set out in Part 1 of this consultation. If and when we introduce a provider-level assessment, we may consider using our CQC Insight model to select a sample of locations for practice-level inspection and rating.

During 2017/18, we will work with a number of areas to pilot our approach to how we regulate evolving models of primary care.

Consultation questions

10a Do you agree with our proposed approach for regulating the following services?

i. Independent sector primary care
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

ii. NHS 111, GP out-of-hours and urgent care services
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

iii. Primary care delivered online
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

iv. Primary care at scale
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

10b Please give reasons for your response (naming the type of service you are commenting on).

Timetable for implementation

April 2017 to March 2018:

- consult on proposed changes to primary medical services
- refine and test our new methodology, including for rating population groups
- CQC Insight published for general practice providers (June)
- introduce provider information collection (non-digital collection up to April 2018) and implement regulatory review process (November)
- start inspections using the new approach (November)
- remove the six-month limit on focused inspections changing overall ratings.

April 2018 to March 2019:

- introduce provider information collection for GP federations and super practices
- develop and test provider-level assessment alongside live-testing of registration changes.

April 2019 to March 2021:

- phased implementation of provider-level assessments, subject to registration changes for some providers.

2.2 Adult social care services

Introduction

In this section, we describe how we propose to develop our approach to regulating adult social care providers, in line with the direction set out in our new five-year strategy. We describe our approach to monitoring, inspecting and rating and using our enforcement powers to require providers to take action when they need to improve.

Since October 2014, we have found the quality of care in adult social services to be variable. At the beginning of May 2017, 77% of services were rated as good and just 2% rated as outstanding. We have also found that our ability to influence improvement has been mixed. Over three-quarters of services rated inadequate improved on re-inspection, but for services that require improvement the picture is less encouraging, with 38% remaining unchanged on re-inspection and 5% getting worse.

Summary of proposals

We will strengthen our use of information and relationship management to support a more responsive and targeted approach to inspection. We will focus more on providers that are unable to sustain improvement, and on recognising providers that have improved but have not yet managed to achieve a better rating.

We propose to:

- implement a more consistent approach to working with providers and other stakeholders to understand the quality of care and encourage improvement
- introduce an online provider information collection and share information with key stakeholders
- develop a new CQC Insight model that brings together information about all the locations of a provider to help inspectors see the broader context for performance
- increase the period between comprehensive inspections for services rated as good and outstanding, as our monitoring improves
- make more use of focused inspections, which will always include an assessment of the well-led key question
- remove the ‘six month limit’, which only allows us to change an overall rating if a focused inspection is carried out within six months of the last comprehensive inspection
- extend the time in which to gather views about the quality of services that provide care to people in their own homes
- increase our focus on services rated as requires improvement to drive improvement.

The changes we propose for adult social care

Monitor

Our monitoring function will play a greater role in how we regulate. Our new Insight model and online provider information collection will enable us to monitor potential changes in the quality of care, and we will monitor more closely services that repeatedly fail to achieve a good standard of care. This will help us to target our responses to these services to encourage them to improve.

Provider information collection

We will introduce a new approach to collecting information from providers. This will be a live online process, rather than a form to collect information in the run-up to an inspection. We will ask providers to provide a statement of quality in relation to the five key questions and to describe what they are doing to support continuous improvement. The process will facilitate regular, ongoing engagement with providers.

Providers will need to complete the information collection once a year as a minimum. However, by keeping the information up-to-date, a provider can demonstrate an open culture and show that they are committed to continual learning. We will continue to work with health and local authority commissioners, providers and other stakeholders, to explore how we might develop and share the information as the basis of a single core dataset – information that is collected once and shared many times.

CQC Insight

CQC Insight is a tool that presents information about services and, where possible, compares performance over time or in relation to other providers. We hope that the new provider information collection will help to provide a dataset that we can use across the adult social care sector to monitor quality and compare performance between services and over time.

CQC Insight can also help inspectors to understand the broader context, by setting out how a provider is performing across all of its services. Changing the level of registration – as recommended in Part 1 – would make it much easier to bring together information about services run by corporate provider groups.

Strengthened relationship management

We will be clearer and more consistent about how we engage with the leaders of provider organisations and other stakeholders, such as local authority commissioners and clinical commissioning groups (CCGs) – for example:

- when we find recurring themes across a provider's services
- where services fail to sustain a good standard of care
- where ratings of inadequate and requires improvement are predominant across a provider.

Current approach to monitoring	New approach to monitoring
• Intelligent Monitoring • Provider information return issued before an inspection • Engagement with providers and partners variable • Data collected by many different organisations	• Clearer and more consistent engagement with leaders in organisations and other stakeholders, such as local authority commissioners and CCGs • Provider information collection will be an online process, containing a 'statement of quality' in relation to the five key questions and activities supporting continuous improvement • Provider information shared with key stakeholders as a single shared view of quality

Planning our regulatory response

We will continuously monitor all available information to inform when we will inspect and the issues we may look at. For example, where information does not flag up risks or concerns, we may maintain our comprehensive inspection schedule. We may bring forward comprehensive inspections in response to a wide range of concerns, or conduct a focused inspection where concerns are more limited. We will have the flexibility to expand the scope of focused inspections where additional or different concerns are identified before the inspection or during the site visit.

Where an adult social care service is provided alongside hospital or primary care services within a complex provider, we will monitor quality and plan a coordinated inspection schedule as set out in Part 1. Where we identify a pattern of concerns across services within a larger provider, we may also plan a coordinated approach to inspection, and in future may decide to undertake a provider-level assessment, subject to the proposed registration changes.

Consultation questions

11a Do you agree with our proposed approach to monitoring quality in adult social care services, including our proposal to develop and share the new provider information collection as a single shared view of quality? [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

11b Please give reasons for your response.

Inspection

Scope of inspections

We want to introduce a more proportionate, targeted and responsive approach to inspection, with a better balance between monitoring, comprehensive inspections and focused inspections. Every service will have a comprehensive inspection, which will address all five key questions. Focused inspections are more targeted. They focus on specific risks or concerns identified through monitoring activity or from a comprehensive inspection. They may not address all five key questions but will always address the well-led question. We may also use focused inspections to inform reports that examine particular themes or aspects of care, such as pathways of care or how people with specific conditions are cared for.

Inspection scheduling

As our monitoring improves, we believe it would be more proportionate to increase the maximum timescales between planned comprehensive inspections:

- from two to two and a half years for services rated as good
- from two to three years for services rated as outstanding.

We will continue to monitor quality in these services and will respond to risks by bringing forward a comprehensive inspection or carrying out a focused inspection. We may also bring forward an inspection where we have information that indicates that a provider has improved or deteriorated.

We will continue to re-inspect services that are rated as requires improvement overall every year. However, we will address inconsistencies in our approach to regulating services that are consistently rated as requires improvement. Our proposed approach is described on page 52.

We have found that on re-inspection, over three-quarters of services rated as inadequate have improved, so we will continue to re-inspect these services every six months until they are able to achieve a better rating.

Wherever possible we will inspect adult social care services delivered by a complex provider as part of a coordinated scheduled of inspections, as set out in Part 1.

We may inspect any service at any time, irrespective of rating, where this is appropriate.

Inspecting services providing care to people in their own homes

It can be harder to assess the quality of care when people are cared for in their own homes by domiciliary care, supported living and extra care housing services. Unannounced and short notice inspections can make it difficult to discuss experiences with people who need time and support to participate and share their experiences, such as those with cognitive impairment.

We are therefore developing a more extensive 'toolkit' for inspectors that will include new methods for gathering additional information from providers, people using services and their families, and other stakeholders:

1. An announced inspection: we may not specify the actual day and time of an inspection, but we could point to a period when it will happen, retaining an unannounced element in certain circumstances.
2. Extended time for additional fieldwork: this could involve activity after an unannounced or short notice first visit.

Rating

Ratings are an important indicator of quality. They help people using services, their families and carers to make choices about the services they use. They increase accountability and transparency and incentivise improvement. They also help providers and others to compare performance over time and between organisations, and to identify good practice.

We will continue to rate services against each of the five key questions. Ratings will be changed on the basis of evidence from data and inspections and we will be able to change an overall rating on the basis of a comprehensive or focused inspection. We also propose removing the current 'six month limit', which only allows us to change an overall rating if a focused inspection is carried out within six months of the last comprehensive inspection.

Current approach to inspection and rating	New approach to inspection and rating
• All key questions inspected and rated as part of comprehensive inspection programme • Comprehensive inspection carried out within two years for good and outstanding services • No requirement to inspect any area or key question as a minimum when carrying out a focused inspection • Inspection only at location level • Focused inspection can only change overall rating if within six months of a comprehensive inspection • 'One size fits all' for inspecting the quality of care delivered to people in their own homes	• Using registration, risk and rating information to target when, what and how we inspect • Comprehensive inspection carried out within 2.5 years for good services and within three years for outstanding services • Focused inspections will always include an assessment of the well-led key question • Will be able to change an overall rating on the basis of a focused inspection, removing the 'six-month limit' that we currently apply • More flexible approach for inspecting care delivered to people in their own homes, supported by a 'toolkit' of methods to support evidence gathering

Reporting

Our inspection reports will be shorter, clearer and more informative. We will include the inspection history of the individual service and will explore how we can also include a picture of quality of all the services operated by the provider. As we develop our use of data over time, we will consider introducing an evidence table, setting out the facts and figures that support our judgements, in line with our proposals for other sectors.

Consultation questions

12a Do you agree with our proposed approach to inspecting and rating adult social care services?

[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

12b Please give reasons for your response.

13a Do you agree with our proposed approach for gathering more information about the quality of care delivered to people in their own homes, including in certain circumstances announcing inspections and carrying out additional fieldwork?

[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

13b Please give reasons for your response.

Taking action to improve care

Services that repeatedly require improvement

When a service is rated as requires improvement, our regulatory response will take into account whether it has breached any regulations, its track record on quality and plans for improvement.

We will engage with partners to highlight good practice, examples of improvement, and available sources of support. We will also monitor services more closely to identify any changes or deterioration in quality, so that we can respond more quickly if necessary.

In some circumstances, for example where services are unable to demonstrate that they have the leadership or governance processes in place to assure and improve quality, this may represent a breach of Regulation 17 (good governance). We will always consider this when a provider has received an overall rating of requires improvement more than once, and we may ask them for a written report that sets out how they will assess, monitor and improve the quality and safety of their services. This action plan will need to be agreed with the provider's commissioners. If they are rated as requires improvement for a third time, we will hold a formal management review meeting (MRM) to consider the next steps and the potential use of our enforcement powers.

We will also monitor quality across all of a provider's services and, where more than half are rated as requires improvement or inadequate, we will hold an MRM to decide the best course of action. We will engage directly with the provider's leadership and, in future, may consider enforcement action against the provider, subject to the changes in the level of registration proposed in Part 1.

More effective and consistent enforcement

Our proposed change to the level of registration for corporate provider groups will mean that we can hold the corporate-level leadership to account when we have concerns about poor care. We want to explore the use of provider-level conditions, which would include setting out the actions that the provider must take to deal with systemic failings across its services. This will support a more consistent approach and will encourage providers to monitor the quality of care across all their services and to respond when it falls below acceptable standards.

We cannot currently publish information about enforcement activity in inspection reports until the period in which providers may submit representations and appeals has closed and the outcome of these have been decided. In future, we want to be more transparent with the public when we are taking enforcement action by publishing the details sooner. We are working with the Department of Health to take this forward.

Current approach to enforcement	New approach to enforcement
• Enforcement action taken in response to issues at individual services • Potential for repeated requires improvement ratings with no enforcement	• More action taken at provider level (including corporate head office level) where issues affect more than one service • More consistent approach to repeated ratings of requires improvement, including potential breach of Regulation 17

Consultation questions

14a Do you agree with our proposed approach for services which have been repeatedly rated as requires improvement?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

14b Please give reasons for your response.

Timetable for implementation

April 2017 to March 2018:

- refine and test new methodology
- implement online provider information collection and new inspection methodology
- start using the revised assessment framework (inspections in the first six weeks will use the existing PIR)
- start using the revised methodology for services providing care to people in their own homes
- removal of six-month limit on focused inspections changing overall ratings.

April 2018 to March 2019:

- pilot provider-level assessments alongside live testing of registration changes.

April 2019 to March 2021:

- phased implementation of provider-level assessments, subject to registration changes for some providers.

PART 3: FIT AND PROPER PERSONS REQUIREMENT

This section sets out our proposed changes to the way CQC will carry out our role in relation to the fit and proper persons requirement (Regulation 5 of the Health and Social Care Act 2008 (Regulated Activities) Regulations 2014), including the way we will share information with providers when we receive information of concern from a third party. We also provide additional guidance for providers on interpreting "serious misconduct and serious mismanagement".

The fit and proper persons requirement

The fit and proper persons requirement (FPPR) was introduced in November 2014 for NHS hospitals and in April 2015 for providers in all other sectors. This was in response to concerns raised following investigations into Mid Staffordshire NHS Foundation Trust and Winterbourne View Hospital. It requires all providers registered with CQC to assure themselves that all directors (or those in equivalent roles) are fit to carry out their responsibility for the quality and safety of care.

CQC's role is to make sure that providers have appropriate recruitment and performance management processes in place, and to take action against a provider if we believe they are failing to meet the requirement. It is not our role to regulate individuals or to assure that any individual is fit or proper. We will continue to check this when a provider applies to register, or to vary its registration, and when we carry out inspections using the well-led key question.

Following up concerns

When we receive concerns from the public or health and social care staff about the fitness of directors, our current approach is to assess the information and to ask the provider to consider and respond only to the information that we believe is relevant.

In future, we propose to continue to notify providers of all concerns relating to their directors, but will ask them to assess all the information we receive. We will ask the person providing the information for their consent to do this, and will seek to protect their anonymity if necessary. In some exceptional cases, we will need to progress without consent when we are concerned about the potential risk to people using services. We will also inform the director to whom the case refers, but we will not ask for their consent and will not disclose the identity of the person who provided the information to us.

When we share information of concern with a provider, we will ask them to detail the steps they have taken to assure themselves of the fitness of the director. We will also indicate what type of response we will expect from them after we notify them about the concern. This response will need to include assurance from a provider that:

- they have used a fair and proportionate process to establish the primary facts of any matter giving rise to a concern about the director (the investigation stage)
- having ascertained the primary facts, they have assessed whether the facts establish that the director falls within any of the categories in Regulation 5(3) (the assessment stage)

If the response does not satisfy CQC that the provider has followed a robust process and reached a reasonable decision, we will either ask the provider for further information, carry out a follow-up inspection, or potentially take regulatory action.

If a provider has demonstrated that they applied the appropriate checks but CQC has concerns that the decision it has made about the fitness of a director is a decision that no reasonable person would have made, we will apply our enforcement policy to decide if there has been a breach of the regulations.

Current approach to FPPR	New approach to FPPR
• We review information of concern and send a selection to the provider for comment	• We will send all information we receive to the provider and ask them to detail their current processes. We will assess the information and, where necessary, carry out an investigation and assessment

Consultation questions

15a Do you agree with the proposal to share all information with providers? [Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

15b Do you think this change is likely to incur further costs for providers?

Interpretation of 'serious misconduct and serious mismanagement'

Regulation 5(3)(d) states that "the individual has not been responsible for, been privy to, contributed to or facilitated any serious misconduct or mismanagement (whether unlawful or not) in the course of carrying on a regulated activity or providing a service elsewhere which, if provided in England would be a regulated activity".

Providers have asked CQC to clarify what is meant by "serious mismanagement" and "serious misconduct". Our new guidance (set out in Annex A) is intended to help providers interpret and implement the regulation.

Consultation question

16 Do you agree with the proposed guidance for providers on interpreting what is meant by "serious mismanagement" and "serious misconduct"?

How to respond

You can respond through our online form at: **www.cqc.org.uk/nextphase**

You can write to us at:
Freepost RTTE-JTBT-ZTHH
Next Phase Consultation
Care Quality Commission
151 Buckingham Palace Road
LONDON
SW1W 9SZ

If you have any questions about this consultation, please email: **nextphase@cqc.org.uk**. You can also tweet us your thoughts at: **#CQCNextPhase**

Please reply by **Tuesday 8 August 2017**.

Thank you for taking the time to contribute to the development of our future work. Your feedback and comments are important in helping us get it right.

Summary of consultation questions

PART 1: REGULATING IN A COMPLEX CHANGING LANDSCAPE

1.1 Clarifying how we define providers and improving the structure of registration

1a What are your views on our proposal that the register should include all those with accountability for care as well as those that directly deliver services?

1b What are your views on our proposed criteria for identifying organisations that have accountability for care (see page 12)?

2 We have suggested that our register show more detailed descriptions of services and the information we collect. What specific information about providers should be displayed on our register?

1.2 Monitoring and inspecting new and complex providers

3a Do you agree with our proposals to monitor and inspect complex providers that deliver services across traditional hospital, primary care and adult social care sectors?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

3b Please explain the reasons for your response.

1.3 Provider-level assessment and rating

4a Do you agree that a provider-level assessment in all sectors will encourage improvement and accountability in the quality and safety of care?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

4b What factors should we consider when developing and testing an assessment at this level?

1.4 Encouraging improvements in the quality of care in a place

5a Do you think our proposals will help to encourage improvement in the quality of care across a local area?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

5b How could we regulate the quality of care services in a place more effectively?

PART 2: NEXT PHASE OF REGULATION

2.1 Primary medical services

6a Do you agree with our proposed approach to monitoring quality in GP practices?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

6b Please give reasons for your response.

7a Do you agree with our proposed approach to inspection and reporting in GP practices?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

7b Please give reasons for your response.

8a Do you agree with our proposal to rate population groups using only the effective and responsive key questions? (Safe, caring, and well-led would only be rated at practice level.)
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

8b Please give reasons for your response.

9a Do you agree with our proposal that the majority of our inspections will be focused rather than comprehensive?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

9b Please give reasons for your response.

10a Do you agree with our proposed approach for regulating the following services?

i. Independent sector primary care
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

ii. NHS 111, GP out-of-hours and urgent care services
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

iii. Primary care delivered online
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

iv. Primary care at scale
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

10b Please give reasons for your response (naming the type of service you are commenting on).

2.2 Adult social care services

11a Do you agree with our proposed approach to monitoring quality in adult social care services, including our proposal to develop and share the new provider information collection as a single shared view of quality?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

11b Please give reasons for your response.

12a Do you agree with our proposed approach to inspecting and rating adult social care services?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

12b Please give reasons for your response.

13a Do you agree with our proposed approach for gathering more information about the quality of care delivered to people in their own homes, including in certain circumstances announcing inspections and carrying out additional fieldwork?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

13b Please give reasons for your response.

14a Do you agree with our proposed approach for services which have been repeatedly rated as requires improvement?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

14b Please give reasons for your response.

PART 3: FIT AND PROPER PERSONS REQUIREMENT

15a Do you agree with the proposal to share all information with providers?
[Strongly agree/ Agree/ Neither agree or disagree/ Disagree/ Strongly disagree]

15b Do you think this change is likely to incur further costs for providers?

16 Do you agree with the proposed guidance for providers on interpreting what is meant by “serious mismanagement” and “serious misconduct”?

Annex A: Guidance for the implementation of the fit and proper persons requirement

Fit and proper person requirement: Serious misconduct and serious mismanagement and good character

Contents

A. Introduction

1.1 All registered providers subject to Regulation 5 of the Health and Social Care Act 2008 (Regulated Activities) Regulations 2014 (the 2014 Regulations) are required to satisfy themselves as to the fitness of their directors. This requires diligent enquiries at the appointment stage, and effective performance management for the duration of the appointment. It is for providers to ensure they comply with this Regulation when recruiting directors by complying with all relevant guidance.

1.2 In this document the use of the word ‘director’ encompasses shadow directors, by which we mean individuals who are not directors but their roles and responsibilities are the same as or equivalent or similar to directors of the service.

The criteria that must be satisfied:

1.3 Registered providers must satisfy themselves that all of their all of their directors meet all the requirements relating to fitness in Regulation 5(3) of the 2014 Regulations.

1.4 The requirements that each registered provider must satisfy in respect of each director are:

(a) the individual is of good character,

(b) the individual has the qualifications, competence, skills and experience which are necessary for the relevant office or position or the work for which they are employed,

(c) the individual is able by reason of their health, after reasonable adjustments are made, of properly performing tasks which are intrinsic to the office or position for which they are appointed or to the work for which they are employed,

(d) the individual has not been responsible for, been privy to, contributed to or facilitated any serious misconduct or mismanagement (whether unlawful or not) in the course of carrying on a regulated activity or providing a service elsewhere which, if provided in England, would be a regulated activity, and

(e) none of the grounds of unfitness specified in Part 1 of Schedule 4 apply to the individual.

When can concerns arise?

1.5 The fitness of a director or proposed director may be called into question at any time. This may be during a recruitment process or may be in the course of the director's employment or when he or she is acting as a self-employed director.

1.6 If a director comes within any of the categories in Part 1 of Schedule 4 to the 2014 Regulations they must be removed from their position as a director.

1.7 In all other cases, the registered provider is required to make an assessment of the individual's fitness If the registered provider decides that a director does not meet any of the requirements set out in paragraphs 1.4 (a) – (e) above, it must relieve that director of their responsibilities as a director. This does not necessarily mean that the director should be dismissed from his or her employment.

B. Serious mismanagement or misconduct

What is misconduct?

2.1 "Misconduct" means conduct which breaches a legal or contractual obligation imposed on the director. It could mean acting in breach of an employment contract, breaching relevant regulatory requirements (such as mandatory health and safety rules), breaching the criminal law or engaging in activities which are morally reprehensible or likely to undermine public trust and confidence.

What is mismanagement?

2.2 "Mismanagement" means being involved in the management of an organisation or part of an organisation in such a way that the quality of decision making and actions of the managers falls below any reasonable standard of competent management.

2.3 The following gives examples of behaviour that may amount to mismanagement:

- Transmitting to a public authority or any other person inaccurate information without taking reasonably competent steps to ensure it was correct.
- Failing to interpret data in an appropriate fashion.
- The suppression of reports where the findings may be compromising for the organisation.
- Failure to have an effective system in place to protect staff who have raised concerns.
- Failure to learn from incidents, complaints and when things go wrong.
- Failure to model and promote standards of behaviour expected of those in public life, including protecting personal reputation, or the interests of another individual, over the interests of service users, staff or the public.
- Failure to implement quality, safety and or process improvements in a timely manner, where there are recommendations or the need is otherwise manifest.

When should proven misconduct or mismanagement be assessed to be "serious misconduct or mismanagement"?

2.4 Providers will have to reach their own decision as to whether any facts which are alleged reach the threshold of being "serious misconduct or mismanagement". The Shorter Oxford English Dictionary defines serious as:

> "Important, grave, having (potentially) important especially undesired consequences, giving cause for concern of significant, degree, amount, worthy of consideration"

2.5 Misconduct differs from mismanagement, in that a single incident of misconduct may be so serious as to amount to serious misconduct, whether the provider also concludes that this was incompatible with continued employment or not. However, any serious misconduct renders a director unfit within the terms of the fit and proper person requirement.

2.6 However, an isolated incident is unlikely to constitute serious mismanagement unless it is so serious as to call into question the confidence the organisation and the public can have in the individual concerned.

2.7 Serious mismanagement is likely to consist of a course of conduct over time. Any assessment of its seriousness needs to consider the impact of the mismanagement on the quality and safety of care for service users, the safety and well-being of staff, and the effect on the viability of the provider.

2.8 Not all misconduct or mismanagement in which a director has had some involvement will reach the threshold of "serious". Where there is evidence of misconduct or mismanagement that is not judged to be "serious", the provisions of Regulation 5(3)(d) do not apply. However, it will be for the provider (as the employer) to determine the most appropriate response, so as to ensure that performance is managed and the quality and safety of services is assured.

2.9 Isolated incidences of the following types of behaviour could be considered by a provider to amount to misconduct or mismanagement which does not reach the required threshold of seriousness:

- Intermittent poor attendance;
- Minor breaches of security;
- Minor misuse of an employer's assets;
- Failure to follow agreed policies or processes when undertaking management functions where the failures had limited repercussions or limited effects, or were for a benevolent or justifiable purpose.

2.10 The following are examples of misconduct and mismanagement which providers would be expected to conclude amounted to serious misconduct or mismanagement, unless there are exceptional circumstances which makes it unreasonable to determine that there is serious misconduct or mismanagement:

- Fraud or theft;
- Any criminal offence other than minor motoring offences;
- Assault;
- Sexual harassment of staff;
- Bullying;
- Victimisation of staff who raise legitimate concerns;
- Any conduct which can be characterised as dishonesty, including:
    - o Deliberately transmitting information to a public authority or to any other person which is known to be false;
    - o Submitting or providing false references or inaccurate or misleading information on a CV;
- Disregard for appropriate standards of governance, including resistance to accountability and the undermining of due process;
- Failure to make full and timely reports to the Board of significant issues or incidents, including clinical or financial issues;
- Repeated or ongoing tolerance of poor practice, or failure to promote good practice, leading to departure from recognised standards, policies, or accepted practices;
- Continued failure to develop and manage business, financial, or clinical plans.

2.11 As part of reaching an assessment as to whether any actions of omissions of the director amount to “serious misconduct or mismanagement”, providers should consider whether an individual director played a central or peripheral role in any wider misconduct or mismanagement. The more central the role of the director, the more likely it is that the conduct of the director should be assessed to be serious misconduct or mismanagement. The provider should also consider whether there are any mitigating factors which could be relied upon to downgrade conduct that should otherwise be assessed to be serious misconduct or mismanagement so that the conduct did not meet that threshold of seriousness.

What key factors should be considered when concerns arise regarding serious misconduct or mismanagement?

2.12 Providers are invited to note the following points:

- The relevant matters can arise in the director’s current role, in a former role within the provider’s organisation, when the director carried out any role where he or she was concerned with a service which is regulated by CQC or which, if provided outside the UK, would be a regulated activity if the activity was carried out within the UK;
- Allegations about a director’s conduct whilst engaged in any other type of business or non-business activity is not relevant for Regulation 5(3)(d), but it is likely to be relevant to the director’s good character (Regulation 5(3)(a)) and/or his or her competence, skills and experience (Regulation 5(3)(b));
- A director’s conduct comes within Regulation 5(3)(d) if he or she has been “responsible for” serious misconduct or mismanagement, namely that he or she was one of the decision makers that led to the serious misconduct or mismanagement;
- A director’s conduct comes within Regulation 5(3)(d) if he or she has “contributed to” serious misconduct or mismanagement, namely where the director was not one of the lead decision makers that led to the serious misconduct or mismanagement but where, by action or omission, the director took some significant step or steps to assist the lead decision makers who were responsible for that misconduct or mismanagement;
- A director’s conduct comes within Regulation 5(3)(d) if he or she has “facilitated” any serious misconduct or mismanagement, namely that he or she took steps or failed to take steps which he or she ought to have taken which enabled those primarily responsible for the misconduct or mismanagement to carry out the acts or omissions which constituted the serious misconduct or mismanagement;
- A director’s conduct also comes within Regulation 5(3)(d) if he or she has been “privy to” serious misconduct or mismanagement, in that the director was aware that misconduct or mismanagement was happening in an organisation and failed to respond to that knowledge by acting in an appropriate manner. An appropriate response to serious misconduct or mismanagement will depend on the circumstances and the internal governance arrangements of the organisation in which the director worked, but it could include:

  - o drawing the serious misconduct or mismanagement to the attention of an appropriate senior member of staff;
  - o making a formal complaint;
  - o drawing the serious misconduct or mismanagement to the attention of a suitable person outside the provider's organisation;

- Providers would be entitled to conclude a director had been "privy to" serious misconduct or mismanagement if the director knew sufficient details of that misconduct or mismanagement (or the circumstances was such that it is reasonable to conclude that the director ought to have known of that mismanagement or misconduct) to require appropriate action by the individual and failed to take any appropriate action in a timely manner.

2.13 Providers will be expected to follow the procedure set out in below paragraphs [4.1 to 4.8] in section D when assessing whether the behaviour of the director in question amounts to serious mismanagement or misconduct.

C. Good character

What is good character?

3.1 There is no statutory guidance as to how 'good character' in regulation 5(3)(a) of the 2014 Regulations should be interpreted.

3.2 However, the following are some of the features that are normally associated with 'good character':

- Honesty;
- Trustworthiness;
- Integrity;
- Openness (also referred to as transparency);
- Ability to comply with the law.

3.3 To consider that a director is of 'good character' the registered provider should be able to regard the director as a person in whom the provider, CQC, people using services and the wider public can have confidence, and who will comply with the law.

What must a provider take into account when assessing 'good character'?

3.4 Providers <u>must</u> have regard to the following matters specified in part 2 of schedule 4 to the 2014 Regulations when assessing whether a director is of good character:

- Convictions of any offence in the UK;

- Convictions of any offence abroad that constitutes an offence in the UK; and
- Whether any regulator or professional body has made the decision to erase, remove or strike-off the director from their register.

What other things should a provider look for in assessing good character?

3.5 When making decisions about character, providers would also be expected to consider:

- The prior employment history of the director, including the reasons for leaving;
- Whether the director has ever been the subject to any investigations or proceedings by a professional or regulatory body;
- Whether the director has ever breached any of the Nolan Principles of Public Life;
- Whether the director has ever breached any of the duties imposed on directors under the Companies Act;
- The extent to which the director has been open and honest with the provider;
- Any other information which may be relevant, such as disciplinary action taken by an employer.

3.6 Providers will be expected to follow the procedure set out in below paragraphs [4.1 to 4.8] in section D when they receive information or an allegation that a director is not of good character.

D. Procedure for assessing compliance with the regulation

How does the registered provider carry out an assessment?

4.1 Where a provider receives information or an allegation that a director is or may be unfit, the regulated provider will need to carry out a 2 stage process, namely:

1. Establish the primary facts of any matter giving rise to a concern about the director by a fair and proportionate process ("the Investigation Stage").
2. Having established the primary facts, make an assessment as to whether the facts establish that the director comes within any of the categories in Regulation 5(3) ("the Assessment Stage").

The Investigation Stage

4.2 There may be occasions where there is a dispute about the relevant facts, with different accounts given by different individuals. The provider needs to conduct a sufficiently thorough investigation before reaching a decision as to whether any relevant facts can be established or not. The provider should consider facts proved if, after a reasonable investigation, the provider considers that it can decide that it is more likely than not that the fact is proved. When undertaking this investigatory process, providers should ensure that they follow their own HR policies (including those governing disciplinary proceedings).

4.3 In some cases, the role performed by a director within the organisation may mean that an external decision maker is appropriate either to undertake an impartial investigation to establish the primary facts or to carry out an impartial assessment as to whether the director comes within one of the categories in Regulation 5(3). The identity of the external decision maker should be carefully considered and their independence should be specifically assured.

4.4 If the concerns are about the director's conduct with another employer, the provider will need to make sufficient attempts to obtain the relevant information from the previous employer(s) and others to establish the primary facts as clearly as is reasonably possible. Furthermore, unless there are very special circumstances, all information gained regarding the director should be shared with the director concerned so they have an opportunity to comment on it before a decision is made about the primary facts of the incident(s).

4.5 However, documentary evidence is not necessary before a "fact" can be established. If the provider receives evidence from someone who saw or heard relevant matters, that can be evidence to support a factual conclusion even if no contemporaneous record was made of the incident. Hearsay evidence can be relevant but providers should exercise caution before making decisions solely based on hearsay evidence and should consider carefully what weight to give to such evidence where there is a conflict of evidence.

The Assessment Stage

4.6 Once a provider has established the primary facts, it will need to decide whether those facts bring the director within any of the categories set out in Regulation 5(3) of the 2014 Regulations.

4.7 If the provider concludes that the primary facts do bring the director within Regulation 5(3), the director must be relieved of his or her directorial responsibilities. If the primary facts do not bring the director within Regulation 5(3), the provider is not required to relieve the director of their directorial responsibilities (although the facts as found by the investigation may still lead the provider to take any other form of disciplinary action or recommend further training or support for the director).

E. Enforcing the regulation

How will CQC enforce the regulation?

5.1 When there is information of concern regarding the fitness of a director CQC will share this information with the provider. The response from the provider will need to satisfy CQC that a robust process has been followed to ensure the fitness of the director or will lead to a request for further dialogue with the provider, a follow-up inspection, or regulatory action.

5.1 When a provider is unable to demonstrate that it has undertaken the appropriate checks when appointing directors, be that externally or through internal promotion, this may potentially be a breach of regulation. We will use our Enforcement Policy to decide whether there is a breach of the regulation and, if so, what regulatory action to take.

5.2 In the case of a new aspirant registrant we will refuse the registration if the provider is unable to satisfy us that appropriate checks have been undertaken in line with best practice.

Further details on how CQC will enforce the regulation are available on the website at:

http://www.cqc.org.uk/content/regulation-5-fit-and-proper-persons-directors

How to respond to this consultation

Online

Use our online form at:
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By post

Send your response to:
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Next Phase Consultation
Care Quality Commission
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For enquiries about this consultation, please email:
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CQC-375

HEALTH AND WELLBEING BOARD

MINUTES AND DECISION RECORD

13 March 2017

The meeting commenced at 10.00 am in the Civic Centre, Hartlepool

Present:

Councillor C Akers-Belcher, Leader of Council (In the Chair)

Prescribed Members:
Elected Members, Hartlepool Borough Council – Councillors Buchan, Clark and Thomas
Representatives of Hartlepool and Stockton-on-Tees Clinical Commissioning Group – Dr Timlin and Karen Hawkins (as substitute for Alison Wilson)
Interim Director of Public Health, Hartlepool Borough Council – Dr Paul Edmondson-Jones
Director of Child and Adult Services, Hartlepool Borough Council – Sally Robinson
Representatives of Healthwatch – Ruby Marshall and Margaret Wrenn

Other Members:
Representative of Tees Esk and Wear Valley NHS Trust – David Brown
Representative of Cleveland Police – Temporary Assistant Chief Constable Ciaron Irvine
Representative of GP Federation – Fiona Adamson

Also in attendance:-
Dave Turton and Alan Pearson, Cleveland Fire Brigade
Lynn Allison and Judy Gray, Healthwatch

Hartlepool Borough Council Officers
Joan Stevens, Scrutiny Manager
Amanda Whitaker, Democratic Services Team

38. Apologies for Absence

Representatives of Hartlepool and Stockton-on-Tees Clinical Commissioning Group – Alison Wilson
Representative of Hartlepool Voluntary and Community Sector – Tracy Woodhall

39. Declarations of interest by Members

Councillors Christopher Akers-Belcher and Thomas declared interests as employees of Hartlepool Healthwatch.

40. Minutes

The minutes of the meeting of the Board held on 16th January 2017 were confirmed.

There were no matters arising from the minutes.

41. Health and Wellbeing Strategy (2013-2018) - Refresh

(*Interim Director of Public Health*)

The report sought approval for the process and timetable for the refresh of the Health and Wellbeing Strategy (2013 – 2018). The Health and Social Care Act 2012 required the Local Authority, with partner agencies including the NHS, to develop a joint Health and Wellbeing Strategy based on the Joint Strategic Needs Assessment (JSNA). The Health and Wellbeing Strategy (2013-2018) had been developed in 2012-2013 in order to comply with this statutory requirement. At the time the Strategy was developed, both the health system and local government were experiencing significant local and national service change. Whilst there is still significant service / system change, with the development of the Better Health Programme locally and nationally the implementation of the Sustainability and Transformation Plans (STPs), the Health and Wellbeing Board had been successfully operating since 2013. On this basis, it was considered to be time to review the Health and Wellbeing Strategy to ensure that it was fit for purpose and effectively reflected local priorities.

The Board was advised that the Joint Health and Wellbeing Strategy (2013-2018) had been agreed by Full Council on the 11th April 2013. The strategy had been based upon the principles of the Marmot Report (2010) and had focused on protecting and improving the health of the population through a range of evidence based interventions. A copy of the Strategy, and the process undertaken in its development, was submitted to the Board.

It was noted that as the Health & Wellbeing Strategy sat within the Council's Policy Framework there was a defined route that had to be followed in the preparation and approval of the Strategy, as set out in Part 4 of the Council's Constitution. In accordance with the requirements of the Constitution, the proposed timetable for the refresh of the Strategy was outlined in the report. It was proposed that, in accordance with the timetable, a small group be established to refresh the Health and Wellbeing Strategy. This group to be chaired by the Interim Director of Public Health, with representatives from each of the partners that sit on the Health and Wellbeing Board, with support from the Council's Legal Services Division.

Decision

(i) That the refresh of the Health and Wellbeing Strategy be approved;

(ii) That a group be established to progress the refresh of the Health and Wellbeing Strategy, as detailed in the report, and that each of the partners that sit on the Health and Wellbeing Board nominate an representative to be involved; and

(iii) That the timeframe outlined in the report be approved and a detailed Project Plan produced (with recognition that there may be the need for minor changes to reflect Council and CCG's diaries for 2017/18, as and when they are published).

42. NHS Planning Guidance Delivering the Forward View: NHS Planning Guidance 2017/18-2020/21 (*Chief Officer, Hartlepool and Stockton on Tees Clinical Commissioning Group*)

The report set out an update on NHS Hartlepool and Stockton-on-Tees Clinical Commissioning Group progress against NHS Planning Guidance for 2017/18. The 'NHS Operational Planning and Contracting Guidance 2017-19', appended to the report, had been published on 22nd September 2016 and was a continuation of the previous year's 'Delivering the Forward View: NHS planning guidance 2016/17 -2020/21'. The planning cycle had been brought forward in recognition that NHS operational planning and contracting processes needed to change in order to support delivery of Sustainability and Transformational Plans (STPs).

The Board was advised that the requirement for a two year CCG level operational plan to cover 2017/18 and 2018/19, which was consistent with the STP, was a continuation of the principles laid out in the Five Year Forward View. The CCG Plan consisted of ambitions that covered 4 years (2017/18-2020/21 to ensure alignment with the STP timeframe which was originally a 5-year plan started in 2015/16). The ambitions had been developed according to the CCGs commissioning portfolio areas whilst also being aligned to the transformational areas within the STP.

A presentation to the Board provided an overview of alignment between the NHS Planning Process to STP priorities and to the key aims of the 'Hartlepool Matters' report. The presentation highlighted that in order to support delivery of these ambitions over the next 2 years, a detailed commissioning work plan and performance framework had been developed which had identified key actions, milestones and expected outcomes, a snapshot of this was set out within the appended Operational Plan and was addressed in the presentation.

During the course of the presentation, the Director of Commissioning & Transformation provided assurances to the Board that as a co-author of the STP the outcomes were, although strategic in the STP, aligned to the CCG Local Plan. This includes commitment to continuing to work with the Local Authority in relation to the development of joint health and social care services. It was highlighted that all areas previously under consideration, including issues identified in the 'Hartlepool Matters' report, are incorporated into the Operational Plan and STP objectives which will reflect the population needs of the Hartlepool locality. Board Members noted that Hartlepool was 'ahead of the game' in a number of areas and reiterated views expressed in relation to the positive work which was being progressed with examples of joint working and patient engagement to deliver a service relevant to the locality need.

Board Members and members of public expressed a number of concerns regarding the communication and engagement processes relating to the Sustainable Transformation Plans. The Chair requested that a report be submitted, to the next meeting of the Board that outlined the STP communications and engagement Plan.

Further concerns were expressed in the discussion which followed in relation to communication associated with the relocation of the Integrated Urgent Care Service from One Life Hartlepool to the University Hospital of Hartlepool. The Director acknowledged the misconceptions, provided assurances to Board Members and the public and explained the rationale for the changes.

Decision

(i) The presentation and report were noted.

(ii) The Chair requested that a report be submitted, to the next meeting of the Board, that outlines the STP engagement that had been undertaken, how members of the public had been informed of events and how future consultation would be taken forward including associated publicity.

43. Safe and Well Visit Development - Presentation (*Interim Director of Public Health*)

The Interim Director of Public Health introduced a presentation to update the Board regarding the work undertaken with Cleveland Fire Brigade, to develop a health and wellbeing element to their home safety visits. In December 2015 the Chief Fire Officer of Cleveland Fire Brigade, had delivered a presentation entitled 'Fire as a health asset' which had made an offer to strategic health partners to develop new, joined up ways of working. An initial meeting had been scheduled with health and social care partners in the Authority. It had been agreed that a falls prevention element would be the first element for development and a working group had been assembled.

The presentation, by Cleveland Fire Brigade's Head of Community Safety, updated the Board on the background to the initiative, the Partners involved in the initiative and the three stranded visit approach incorporating prevention, assessment and intervention. Fire fighters currently carry out a fire safety assessment of the home, aimed at the over 65 population. The working group had developed a complimentary assessment which would be carried out during these visits which would initially consider the risks of slips, trips and falls. Once risks had been identified, where possible these would be mitigated immediately by staff present, otherwise clearly identified pathways would be followed, which aimed to divert people into low level services, lowering the risk of injury and hospital admission, and lowering the number of people who required longer term, higher intensity interventions and service provision.

The Board was advised that the initiative had commenced at the end of October 2016. There had been 118 completed visits in Hartlepool with 8 falls team referrals, 7 Loneliness referrals and 6 smoking referrals. It was intended to continue delivery with a target of 10,000 visits across Cleveland per annum and the expectation was that the take up rate would improve from its current rate of 52%.

Following the presentation, the Head of Community Safety responded to questions arising from the presentation in terms of the operation of the initiative.

Decision

The report and presentation were noted and the Cleveland Fire Brigade's Head of Community Safety was thanked for the presentation.

44. Any Other Items which the Chairman Considers are Urgent

The Chairman ruled that the following items of business should be considered by the Committee as a matter of urgency in accordance with the provisions of Section 100(B) (4)(b) of the Local Government Act 1972 in order that the matter could be dealt with without delay.

45. Membership Request

Following recent discussion by Headteachers, the Chair sought consideration of a membership request seeking a position on the Health and Wellbeing Board to an education representative.

Decision

That the membership of the Health and Wellbeing Board be amended to included a education representative as a non-prescribed member.

46. Health and Wellbeing Board

The Chair highlighted that the next scheduled meeting of the Board was due to be held on 15th May 2017 and that it was proposed that any items to be considered at that meeting be deferred to the next Board meeting.

Decision

That Board Members note that the meeting of the Board, scheduled for 15th May 2017, be cancelled

47. 'Hartlepool Matters' Implementation and Monitoring Group

Delegated authority was sought in relation to agreement of the composition of the above Implementation and Monitoring Group.

Decision

That authority be delegated to the Chair of the Board and the Chief Executive to agree the composition of the 'Hartlepool Matters' Implementation and Monitoring Group; a sub-group of the Board.

Meeting concluded at 11.25 a.m.

CHAIR